



## BRIEFING PAPER

Number 05724, 24 July 2017

# The New Homes Bonus (England)

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## Summary

The New Homes Bonus (NHB) was introduced by the Coalition Government with the aim of encouraging local authorities to grant planning permissions for the building of new houses in return for additional revenue. Under the scheme, the Government has been matching the Council Tax raised on each new home built for a period of six years. Local authorities are not obliged to use the Bonus funding for housing development. A [consultation paper](#) on the scheme was published on 12 November 2010 and the [Final Scheme Design](#) was published in February 2011. The scheme applies only to England.

The Department for Communities and Local Government (DCLG) initially set aside almost £1 billion over the Comprehensive Spending Review period (2011 to 2015) for the New Homes Bonus. The aim was to provide an additional 140,000 homes over a ten-year period. In February 2015 DCLG announced that a total of almost £3.4 billion had been allocated between 2011 and 2016. The Government said that this £3.4 billion was “rewarding the delivery of 700,000 net additional dwellings, and over 100,000 long-term empty homes brought back into use.” By December 2016 more than £6 billion had been paid to local authorities and “more than 1.2 million homes had been delivered”.

The context in which this scheme has been developed is one of housing supply failing to meet demand. In England and Wales, housebuilding in 2010 was at the lowest point since 1946 (and the lowest since 1923 if the period around WWII is excluded). The number of households in England is projected to increase by an average of 210,000 per year between 2014 and 2039. 167,920 dwellings were completed in England in 2015/16. Comparative statistics on house-building completions can be found in Library note SN02644 [Housebuilding: Social Indicators](#).

The National Audit Office (NAO) published a report on the impact of the [New Homes Bonus](#) in March 2013 in which it called for an urgent Government review “to ensure that it successfully encourages the construction of much-needed new homes.” October 2013 saw publication of the Public Accounts Committee’s [report](#) on the New Homes Bonus in which it observed: “The Department has yet to demonstrate that the new homes it is funding through this scheme are in areas of housing need and the Department’s planned evaluation is now urgent.” The Government’s [Evaluation of the New Homes Bonus](#) was published in December 2014 and covers the first four years of the scheme’s operation.

The 2015 Spending Review included [an announcement](#) that “the government will consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years.” [The consultation proposals were published](#) in December 2015; consultation closed on 10 March 2016.

As part of the [provisional Local Government Finance Settlement 2016](#), Sajid Javid, Secretary of State for Communities and Local Government, said that “for all its successes, the system can be improved.” He confirmed that from 2017 a national baseline for housing growth would be introduced of 0.4%. He also confirmed that in 2017-18 NHB payments would be made for five, rather than six years, and that the payment period would be reduced again to four years from 2018-19.

# 1. New Homes Bonus (NHB) Scheme

The Conservative Party's 2010 Manifesto included a desire to "create a property-owning democracy, where everyone has the chance to own their own home" and went on to describe a scheme to incentivise sustainable house-building:

Communities should benefit when they choose to develop sustainably, so we will match pound-for-pound the council tax receipts that local authorities receive from new homes to encourage sensitive local development.<sup>1</sup>

A February 2009 decentralisation paper, *Control Shift*, published by the Conservative Party spelled out how this Council Tax incentive would be funded;

To achieve this we will:

- abolish the HPDG;
- use the £250m of HPDG funding allocated for 2010-11 as the first contribution to a new Matching Fund; and
- add a further £250m to the Matching Fund in each of the succeeding four years (to take the total to £1,250 million per year in 2014-15), by taking £250m per year off what would otherwise be the overall increase in formula grant to councils in each of those years.

As a result of these measures, councils will get an automatic, six-year, 100 per cent increase in the amount of revenue derived from each new house built in their areas. Local councils and local voters will know that by allowing more homes to be built in their area they will get more money to pay for the increased services that will be required, to hold down council tax, or both. This will be a permanent, simple, transparent incentive for local government and local people to encourage, rather than resist, new housing – of types and in places that are sensitive to local concerns and with which local communities are, therefore, content.

In addition, we will look at the complex array of existing levies on development, for example the proposed Community Infrastructure Levy and Section 106 agreements, and examine how these can be simplified and localised so that both individuals and communities affected by new development are properly compensated for any loss of amenity.<sup>2</sup>

On 9 August 2010 the Housing Minister, Grant Shapps, announced the New Homes Bonus Scheme. In the context of abolishing the existing planning regime for the development of new housing, the scheme was aimed at encouraging local authorities to grant planning permissions for housing development:

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<sup>1</sup> [The Conservative Party Election Manifesto 2010](#)

<sup>2</sup> Conservative Party, *Control Shift*, February 2009, p10

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The Minister confirmed that councils who take action now to give planning consent and support the construction of new homes where they are needed and wanted will receive direct and substantial benefit for their actions.

Mr Shapps urged councils to open up an honest and direct debate with the communities they serve about the benefits of building new homes in their area - how they can reap the benefits of development and not just the costs.

In a letter to councils Mr Shapps also confirmed that the Government is working on business rate reforms to encourage economic development, as well as reforming the Community Infrastructure Levy to provide an even clearer incentive to develop.<sup>3</sup>

On 29 August 2010 the Government announced that the scheme would also provide incentives to local authorities to provide authorised sites for travellers.<sup>4</sup>

As noted above, under the scheme the Government matches the Council Tax raised on each new home for six years (note that has changed from 2017/18 onwards).<sup>5</sup>

In the wake of the 2010 Spending Review, Grant Shapps wrote to local authorities on the settlement for housing. The letter included reference to imminent consultation on the detail of the scheme, which was published on 12 November 2010.<sup>6</sup>

The Department for Business, Innovation and Skills published a White Paper on 28 October 2010, [Local Growth: realising every place's potential](#), which described the New Homes Bonus Scheme as "the cornerstone of the new framework for incentivising housing growth" and went on to say:

Starting in 2011-12 the scheme will match fund the additional council tax for each new home and property brought back into use, for each of the six years after that home is built. Central government will help establish the scheme with support of £196 million in the first year and £250 million for each of the following three years.<sup>7</sup>

The White Paper identified the importance of housing construction in driving economic growth:

Housing can be an important source of economic growth, particularly at a local enterprise partnership level. The recent recession had a severe impact on housing construction, with output falling by around a third from its pre-recession peak. However, this also means that the sector has clear potential to grow. It could therefore play a major role in leading the economy back towards growth and improving the long-term competitiveness of the UK economy. This potential has been demonstrated in UK growth over the past six months, which

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<sup>3</sup> Department for Communities and Local Government, [Grant Shapps: Extra funding for councils who go for growth now](#), press release, 9 August 2010

<sup>4</sup> DCLG, ["Eric Pickles: Fair deal for travellers and the settled community"](#), 29 August 2010

<sup>5</sup> See sections 8 and 9 of this paper for information on changes to the period over which the bonus is payable.

<sup>6</sup> Deposited Paper 2010-1857

<sup>7</sup> Cm 7961, October 2010

showed construction output – of which housing is a major part – growing by 14 per cent between the first and third quarters of 2010, making a major contribution to the strength of whole economy GDP growth. Housing can also play a key role in supporting an efficient labour market, which is critical to economic growth. A more strategic role for housing and planning at the LEP level could help maximise the UK’s house building supply response and the wider economic recovery.<sup>8</sup>

## 1.1 The consultation paper

[The New Homes Bonus](#) consultation paper was published on 12 November 2010. The paper was described as a “technical consultation for local authorities.”

The Government consulted on the following issues:

- How we should reward local authorities for the additional properties made available in their community for the following six years.
- The level of the enhancement for affordable homes and how we should define an affordable home.
- Whether we should reward local authorities for bringing empty properties back into use.
- Whether, in two tier areas outside London, allocating 80 per cent of the New Homes Bonus to the lower tier and 20 per cent to the upper tier authority is an appropriate split. If not, what would the appropriate split be, and why?
- Whether the proposed methods of data collection to track increases to the housing stock are appropriate.
- We would also welcome your wider views on the proposed New Homes Bonus, particularly where there are issues that have not been addressed in the proposed model.<sup>9</sup>

## 1.2 Consultation stage impact assessment

An impact assessment was published as Annex E to [The New Homes Bonus](#) consultation paper. This assessment considered the potential of the Bonus to increase housing supply and concluded that it could result in an 8-13% increase nationally, representing 144,000 additional homes over 10 years. It was acknowledged that there would be winners and losers amongst local authorities:

The New Homes Bonus is set to be funded primarily by taking money out of the formula grant settlement. That is, money will be taken out of the formula grant allocation and redistributed based on the parameters of the bonus: the policy therefore – in the long run - is revenue neutral. This redistributive mechanism of the New Homes Bonus means that the scheme will create financial winners and losers: for any authority to gain financially (relative to their allocation before the bonus), one or more authorities must lose financially. Across the spending review period, however, these impacts will be mitigated by additional central Government money from the abolition of the Housing and Planning Delivery

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<sup>8</sup> Ibid.

<sup>9</sup> DCLG, [The New Homes Bonus](#) consultation paper, November 2010

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Grant: this will fund the full cost in year 1 and a falling proportion across years 2-4.<sup>10</sup>

In February 2011 Graham Jones asked the Minister for further information on potential winners and losers and where the additional new homes were likely to be built. The Minister said "...the distribution and behavioural response of local authorities will largely determine the geographical spread" and:

To disclose the retrospective modelling would be inappropriate. The modelling was done on the basis of retrospective housing supply data which cannot take account of future policy changes.<sup>11</sup>

### 1.3 Responses to the consultation process

Communities and Local Government published a [Summary of Responses to the New Homes Bonus Consultation paper](#) in February 2011. This covered the key issues raised in responses, as well as the Government response.

The key issues were broadly focussed around;

- Linking the level of grant to the national average of the council tax band; specifically the impact on affluent versus less affluent areas and an encouragement to build 'executive' homes.
- Level of affordable homes enhancement.
- Tier split.
- The bonus as a material consideration.

### 1.4 Final scheme design

The [Final Scheme Design](#) for the New Homes Bonus was published in February 2011. Four hundred and eighty responses to the consultation paper were received – the Government described the proposals as having "met with widespread support" and said it would implement the scheme immediately.<sup>12</sup> The Scheme is summarised below under a series of headings.

Note that the following sections describe the scheme **as initially introduced**. Changes that will apply from April 2017 are covered in **section 9** of this paper.

#### Unit of reward

The level of grant for each additional dwelling is linked to the national average of the council tax band for the following six years.<sup>13</sup> Grant is payable based on the change in dwellings on council tax valuation lists. This recognises:

- increases in housing stock;

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<sup>10</sup> [The New Homes Bonus](#) consultation paper, p48

<sup>11</sup> HC Deb 11 February 2011 cc470-1W

<sup>12</sup> DCLG, [Summary of Responses to the New Homes Bonus Consultation paper](#), February 2011

<sup>13</sup> But note that the payment period will start to reduce from 2017-18 to five years and then four years from 2018-19.

- 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.<sup>14</sup>

The [Final Scheme Design](#) contains an example calculation on page 17.

## Affordable housing enhancement

The development of each additional affordable home attracts an enhancement of a flat rate £350 per annum.

## Defining affordable housing

Appendix B to the [Final Scheme Design](#) provides detail on this definition. Affordable housing includes social rented housing let at social rents and at “affordable rents” (up to 80% of market rent levels). It includes low cost home ownership products and can include homes provided by private sector bodies and homes without grant funding provided that they:

- 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.

The definition also covers traveller sites in public ownership.

## Empty homes

The New Homes Bonus is payable where empty homes are brought back into use.

## Allocating the New Homes Bonus

### Tier split

The payment of the New Homes Bonus is 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 goes to the London borough.

### Flexibility on using the money

Local authorities have flexibility on how to spend the un-ringfenced grant but DCLG expects local councils to consult communities about how the money will be spent.

### Basis of calculation

The calculation of grant for a billing authority’s area within a financial year (“the relevant year”) is carried out as follows:

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<sup>14</sup> DCLG, [Final Scheme Design](#), para 7



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- 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 no longer be paid, in the eighth year the amount calculated for the second year will no longer be paid and so on).<sup>15</sup>

<sup>15</sup> Ibid., paras 26-28

A New Homes Bonus calculator (and instructions) can be found on the [Government website](#).

### **Timing of payments**

The New Homes Bonus is paid in line with the local government finance timetable; provisional allocations are announced in early December and final allocations in early February.

Grant for increases in effective stock between successive Octobers is 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 attracted the Bonus in the April 2012-13 financial year.

### **Data on affordable homes**

The Department for Communities and Local Government official statistics on gross additional affordable housing supply are used to calculate the affordable homes enhancement. These statistics measure additional affordable supply on a gross basis and do not deduct demolitions or other losses to stock. Local authorities receive the enhancement for all new affordable homes regardless of whether there have been any reductions to stock.

As the statistics also measure acquisitions, (previously market homes that have been made affordable) authorities receive the £350 enhancement in respect of these properties. They do not receive the council tax element as they are not new supply and are not included in the data set from the valuation list.

The statistics run from April to April and do not become available until October. The affordable homes enhancement of £350 per home is paid the following April. The enhancement for affordable homes delivered between April 2010 and April 2011 was paid alongside the main grant payments for year two.

## **1.5 Spending Round 2013: “pooling” the NHB**

[Spending Round 2013 \(June\)](#) proposed that in 2015-16, £400 million of NHB payments would be top-sliced for use by Local Enterprise Partnerships (LEPs) as part of a £2 billion Local Growth Fund. [A consultation](#) was launched in July 2013 on how this would be achieved.

The proposal proved unpopular within local authorities - the [2013 Autumn Statement](#) advised that pooling would not be taken forward, aside from in London:

The government will formally respond to the technical consultation on the New Homes Bonus and the Local Growth Fund in due course. The government will not include the New Homes Bonus in the Local Growth Fund, except for £70 million for the London Local Enterprise Partnership, which is chaired by the Mayor of London.<sup>16</sup>

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<sup>16</sup> [Autumn Statement 2013](#), para 1.230

London Councils described the decision to pool £70m of New Homes Bonus in London from 2015 as “outrageous.”<sup>17</sup>

## 1.6 NHB Allocations up to 2017-18

The first cash payments through the New Homes Bonus, totalling almost £200 million, were announced on 4 April 2011. Each authority's allocation was listed in [The new homes bonus scheme grant determination 2011-12 \(31/1877\)](#).

Provisional allocations for 2012-13 were announced on 1 December 2011 in a Written Statement:

Today, I am pleased to announce the delivery of 159,000 more homes over the last year, and £431 million of government funding to local authorities.

[...]

The Bonus will be paid in respect of 159,000 homes from October 2010 to October 2011 including 137,000 extra homes and 22,000 long-term empty properties brought back into use. The allocations also include the first affordable homes enhancement, which totals £21 million in respect of 61,000 new affordable homes.

This means we will pay councils £431 million of provisional New Homes Bonus for local authorities in England. This includes the second instalment of £199 million in respect of year 1 and £232 million for housing growth in year 2.

[...]

On top of these provisional allocations, we will address any loss of New Homes Bonus in areas affected by last summer's riots through riot recovery funds. Local authorities will have until 30 December 2011 to make representations on their provisional allocations. The Department has written to local authorities with details for making representations on their authority's provisional allocations and I have also written to all Members of Parliament in England.

A full list of the provisional allocations is being placed in the Library of the House. Further information on the Bonus, including the first New Homes Bonus Bulletin - Unlocking the Bonus can be found at:

[www.communities.gov.uk/housing/housingsupply/newhomesbonus](http://www.communities.gov.uk/housing/housingsupply/newhomesbonus). A copy of the Bulletin is also in the Library.<sup>18</sup>

Final allocations for 2012-13 (totalling £431m) were announced on 1 February 2012.

Final allocations for 2013-14 were announced in February 2013: [New Homes Bonus: grant determination 2013 to 2014](#). The total allocation amounted to £668.3 million.

[New Homes Bonus allocations for 2014 to 2015](#) were published in February 2014. £917 million was allocated to authorities bringing total

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<sup>17</sup> London Councils, “[Outrageous £70m cut must be reversed](#),” 9 December 2013

<sup>18</sup> HC Deb 1 December 2011 c67WS

allocations up to £2.2bn over the 4 years between 2011 and 2015 of which £1 billion was additional grant provided by DCLG.<sup>19</sup>

[New Homes Bonus: final allocations for 2015 to 2016](#) were published in February 2015. Allocations of £1.17 billion in 2015-16 brought the total allocated to almost £3.4 billion over the 5 years between 2011 and 2016. Of that, £1.2 billion was additional grant provided by DCLG. The Government said that the £3.4 billion was “rewarding the delivery of 700,000 net additional dwellings, and over 100,000 long-term empty homes brought back into use.”<sup>20</sup> DCLG also published: [New Homes Bonus: aggregate numbers of homes recognised for the 5 years 2011-12 to 2015-16](#).

[New Homes Bonus final allocations for 2016 to 2017](#) were published in February 2016. £1.46 billion was allocated, bringing the total amount allocated to over £4.8 billion.

[New Homes Bonus: final allocations 2017 to 2018](#) were published on 20 February 2017.<sup>21</sup> £1.2 billion was allocated. Announcing the final settlement, the Secretary of State said:

Recognising the immediate challenges in the care market facing many councils next year, this settlement repurposes £240 million of money which was previously directed to local authorities via the New Homes Bonus to create a new adult social care support grant next year.<sup>22</sup>

2017-18 also marks a change in the period over which the NHB will be paid (see sections 8 and 9 of this paper), together with the introduction of a baseline housing growth of 0.4% - housing growth up to this level is no longer rewarded.

## 1.7 Distribution of the 2017-18 New Homes Bonus

A total payment of £1.2 billion has been allocated for 2017-18, of which £197 million is based on delivery of new homes in Year 7 of the scheme. This section looks at how the £197 million is distributed amongst local authorities.

The New Homes Bonus award for 2017-18 is calculated as follows:

- **Net additions** are calculated as the change in the number of dwellings between October 2015 and October 2016.
- Long-term empty homes brought into use are added to this total, and new long-term empty homes are subtracted.
- This total is converted into Council Tax band D equivalent dwellings (see table in section 1.4 of this briefing).

<sup>19</sup> DCLG, [New Homes Bonus allocations for 2014 to 2015](#), February 2014

<sup>20</sup> DCLG, [New Homes Bonus: final allocations for 2015 to 2016](#), February 2015

<sup>21</sup> Section 1.7 of this paper considers the distribution of the allocations.

<sup>22</sup> [DCLG, Press release](#), 20 February 2017

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- The number of **units for reward** is the growth in the Council Tax band D dwellings, net of a baseline of 0.4%. Growth in housing up to 0.4% is not rewarded (see section 9 of this briefing).
- An **affordable homes premium** is provided at the rate of an additional £350 per additional affordable unit.

### Distribution by region

The table below shows the number of units for reward by region. London had the most units for reward (40,990) while the North East had the fewest (8,107). The South East, East of England and North East lost out by having more new empty homes than empty homes brought back into use.

#### Units for 2017-18 New Homes Bonus by region

	Change in stock <sup>a</sup>		Total	Units for reward <sup>b</sup>
	Net additions	Empty homes brought into use		
London	38,937	1,070	<b>40,007</b>	<b>40,990</b>
South East	37,215	-335	<b>36,880</b>	<b>37,566</b>
East of England	24,325	-168	<b>24,157</b>	<b>23,710</b>
South West	24,607	156	<b>24,763</b>	<b>23,514</b>
North West	21,397	1,318	<b>22,715</b>	<b>20,403</b>
West Midlands	18,934	589	<b>19,523</b>	<b>18,323</b>
East Midlands	18,977	451	<b>19,428</b>	<b>17,753</b>
Yorkshire & the Humber	16,198	668	<b>16,866</b>	<b>15,614</b>
North East	9,236	-298	<b>8,938</b>	<b>8,107</b>
England	209,826	3,451	<b>213,277</b>	<b>205,979</b>

#### Notes

<sup>a</sup> Change in dwelling stock is calculated as the difference between this year's and last year's dwelling stock. Long-term empty homes brought into use are added to the total, and new empty homes are subtracted.

<sup>b</sup> Units for reward are calculated by converting the total into council tax band D equivalents, and subtracting a baseline of 0.4% growth without reward.

**Source:** DCLG, *New Homes Bonus: final allocations 2017-18*

The table below shows how 'units for reward' translates into Year 7 payments by region. London local authorities received the highest total reward (£42.5m) while authorities in the North East received the lowest (£7.1m).

### Units for 2017-18 New Homes Bonus by region

	Year 7 payment (£m)		<b>Total</b>
	Basic payment	Affordable homes premium	
London	£40.5	£2.0	<b>£42.5</b>
South East	£34.6	£1.9	<b>£36.5</b>
South West	£22.2	£1.4	<b>£23.6</b>
East of England	£21.3	£1.2	<b>£22.5</b>
East Midlands	£16.8	£1.0	<b>£17.8</b>
North West	£16.0	£1.3	<b>£17.3</b>
West Midlands	£15.3	£1.1	<b>£16.4</b>
Yorkshire & the Humber	£12.7	£0.9	<b>£13.6</b>
North East	£6.6	£0.5	<b>£7.1</b>
England	£186.0	£11.4	<b>£197.4</b>

**Source:** DCLG, [New Homes Bonus: final allocations 2017-18](#)

Looking at payments allocated per band D equivalent dwelling in a region's Council Tax Base controls for the size and make-up of the region's existing dwelling stock. London receives the highest payment (£13 per band D equivalent), followed by the East Midlands and South West (each £11).

The New Homes Bonus is paid to both lower-tier and upper-tier local authorities (lower tier authorities get 80% of the total, except in London where they get 100%). This analysis looks at the amount received by both types of authority in a region.

#### New Homes Bonus: £ per band D equivalent dwelling



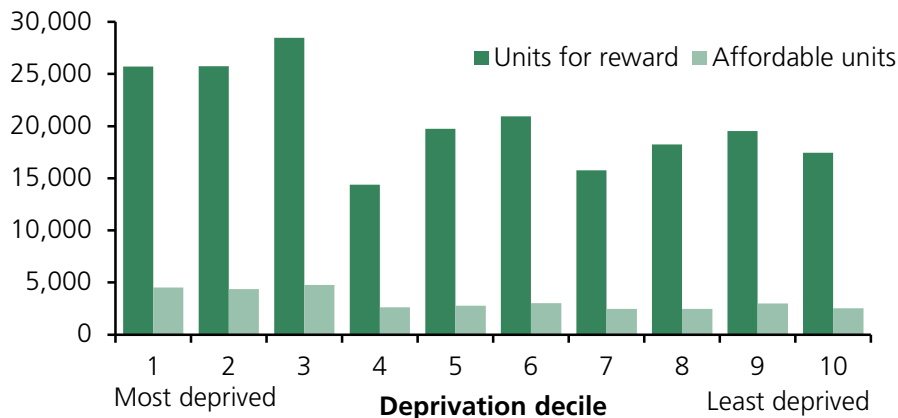
**Sources:** DCLG, [New Homes Bonus: final allocations 2017-18](#); DCLG, [Council Tax Base 2016 in England, local authority level data](#)

### Distribution by deprivation decile

It is also possible to look at how units for reward are distributed amongst the most and least deprived local authorities in England. The English Indices of Deprivation measure relative levels of deprivation in England.

These scores can be used to rank lower-tier local authorities on their average deprivation score across all neighbourhoods. The chart below shows units for reward by local authority deprivation decile. Local authorities in the bottom deciles (i.e. with more deprived neighbourhoods) tended to have more units for reward and more affordable units than less deprived local authorities.

**Units for 2017-18 New Homes Bonus by deprivation decile**



**Sources:** DCLG, *New Homes Bonus: final allocations 2017-18*, DCLG, *English indices of deprivation 2015*, File 10

**Notes:** This analysis looks at lower-tier local authorities. New Homes Bonus payments are split outside of London: 80% goes to the lower-tier authority and 20% to the upper tier. In London 100% goes to the London borough.

### 1.8 General comment on the NHB

In terms of reaction to the August 2010 announcement of the introduction of the NHB, the BBC reported the following:

The Local Government Association welcomed the move but said any new building would need the support of local people.

But David Orr from the National Housing Federation said more had to be done.

He told the BBC: "There are places all over the country where there is a crying need for new homes, but there are still many, many communities where the default position is 'we don't want to see any new homes built here'.

"This incentive might help to persuade some local authorities, whether it will be enough to persuade the local communities - I think that's a much broader question.

"And I think that there is a different strategy that's needed here, about persuading the nation that we have to be able to house our children, and if we do not build more homes we will not be able to do that."<sup>23</sup>

Shelter welcomed the August 2010 announcement but warned that the bonus on its own would not secure an adequate supply of new housing.<sup>24</sup>

In the [June 2011 UK Housing Review Briefing Paper](#) Pawson and Wilcox described the potential for the Bonus scheme to produce an additional 14,000 homes annually as a "fairly modest figure" when set against the possible fall in house-building arising from the Coalition Government's planning reforms. They went on:

<sup>23</sup> ["Councils in England offered new homes bonus"](#), BBC News, 9 August 2010

<sup>24</sup> [Shelter Response](#)

Local authorities' response to the new system is, of course, hard to predict. However, it has been argued by the South East Strategic Leaders (of local authorities) that NHB payments will be insufficient inducement for councils to change their attitudes towards new development.<sup>25</sup>

Then former Labour Housing Minister, John Healey, criticised the scheme during the Labour Party's 2010 Annual Conference.

Speaking on the final day of the Labour Party conference, Healey said that money for [the Government's planned New Homes Bonus](#), which is intended to match council tax raised on every new home built for six years, would be sliced from the total local government grant from Whitehall.<sup>26</sup>

Independent research commissioned by the National Housing Federation from Tetlow King Planning (published in July 2010) concluded that the abolition of regional housing targets in May of that year had resulted in councils scrapping plans for around 85,000 new homes<sup>27</sup>.

Subsequently, the Home Builders Federation (HBF) assessed that authorities that had cut back on previous house building plans would miss out on up to £27 million a year in funding from the New Homes Bonus<sup>28</sup>

Policy Exchange commissioned an update of Tetlow King Planning's research, the results of which were published in December 2012:

The updated research has uncovered reductions in housing targets of 272,720 dwellings against RS requirements across England, of which 67,284 come from a backlog in the early part of the RS period not being made up over later periods in new core strategies/ local plans<sup>29</sup>

The HBF published a [factsheet](#) identifying those authorities that were furthest away in cash terms in 2011-12 from maximising their potential under the New Homes Bonus. Stewart Baseley, Executive Chairman of the HBF, described the money provided by the New Homes Bonus as "invaluable" in these "austere times" and called on local authorities:

...to look hard at the difference the New Homes Bonus could make to them and work with the industry to plan properly for housing in their areas. The industry is willing to engage constructively and the financial rewards for meeting local needs will enable Authorities to fund a wide range of the services they want to provide for their electorate.<sup>30</sup>

The [June 2012 UK Housing Review Briefing Paper](#) contained Pawson and Wilcox's comments on the early impact of the scheme:

While it started only recently, there is evidence that scheme rules have already led to a disproportionate volume of NHB being claimed for newly constructed student housing and/or the

<sup>25</sup> [June 2011 UK Housing Review Briefing Paper](#), p9

<sup>26</sup> Report of Labour's 2010 Annual Conference (accessed on 7 January 2014)

<sup>27</sup> UK Housing, [Minister's letter caused councils to axe 85,000 new homes](#), July 2010

<sup>28</sup> HBF, [Local authorities losing millions](#), 2 March 2011

<sup>29</sup> Tetlow King Planning for Policy Exchange, [Research on the Impact of the Impending Revocation of Regional Strategies on Proposed and Adopted Local Housing Targets across England](#), December 2012

<sup>30</sup> HBF, [Local authorities losing millions](#), 2 March 2011



conversion of multi-occupied dwellings into separate small units, rather than as a result of general-purpose new build.

What can we say about the scheme's overall impact? [...] its introduction in 2011/12 failed to sustain the post-credit-crunch recovery in new housing starts that had begun to develop over the previous three years. More concerning is the observation that planning approvals for new housebuilding fell to a new low of 115,000 in 2011 – considerably below 2009's previous nadir of 126,000. Of course, the main reasons for the current slump in output and in planning approvals are the general economic background and an unhelpful mortgage market. It can only be hoped that the new measures announced in 2011 will help turn the situation around, if and when the wider environment becomes more favourable. However, given the time lags inherent in the planning and housebuilding process, any significant upturn in completions must be several years away, at best.<sup>31</sup>

In an article for *Public Finance Magazine* (May 2012) former Housing Minister, Nick Raynsford, argued for a review of the New Homes Bonus scheme on the ground that "it isn't stimulating much actual new house building."<sup>32</sup>

A survey of over 100 builders carried out by Knight Frank UK (estate agents) in 2012 found that 81% were sceptical about the role of the bonus in incentivising house building compared to 63% in 2011. Barriers to development were identified as a lack of mortgage finance and uncertainty around the new planning policy framework.<sup>33</sup>

A survey of English authorities commissioned by *Inside Housing* magazine found that of the 137 respondents, 60% had paid New Homes Bonus funding for 2012/13 into their General Funds.<sup>34</sup> Tetlow King Planning expanded on this research by considering use of the New Homes Bonus in six case study areas. The resulting report, published in December 2012, found:

All six case studies have displayed good practice in some form and provide interesting examples of how NHB can be directed back to communities. However, the research into the case studies has highlighted some recurring themes which demonstrate some potential limitations of NHB. These are:

- In several cases, the funds allocated from the upper tier authorities (counties) to the lower tier authorities (districts) were relatively insignificant amounts and only a small proportion of the upper tier's total NHB funding pot;
- Despite allocating a proportion of the grant towards community projects, three out of six case studies also directed a portion of the funds towards the Council's central account;
- There are examples of where funds are directed back to the local communities but not necessarily directly targeted at those experiencing housing growth, i.e. the 'affected' communities;

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<sup>31</sup> UK Housing Review Briefing, June 2012, p7

<sup>32</sup> *Public Finance Magazine*, "[Bonus that doesn't fit the bill](#)," 1 May 2012

<sup>33</sup> *Inside Housing*, "[Builders question impact of new homes bonus](#)," 28 May 2012

<sup>34</sup> *Inside Housing*, "[Councils hoard £142 New Homes Bonus cash](#)," 28 June 2013

- The majority of the local authorities are unsure as to the extent to which they might be able to continue allocating funds to local communities, as opposed to reinforcing their central accounts, owing to cuts in central Government budgets; creating longer-term uncertainty over who benefits from NHB;
- General concerns over how NHB is being funded, and how the top slicing of formula grant could lead to potential net loss of funding for some authorities; and
- For the most part, NHB funded projects would have commenced without the additional funding incentive, or were already up and running. In some cases, these projects were expanded by the use of NHB funding.<sup>35</sup>

The [June 2014 UK Housing Review Briefing Paper](#) concluded that the NHB had had little impact on housing supply at that point:

Measures such as the reformed planning system, the New Homes Bonus and the stimulus packages included in the government strategy *Laying the Foundations*, and augmented in the last Budget, have so far had little impact on new housing supply.<sup>36</sup>

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<sup>35</sup> Tetlow King Planning, [New Homes Bonus Research - Incentivising Growth - A New Solution?](#) December 2012

<sup>36</sup> [UK Housing Review Briefing](#), June 2014, p3

## 2. CLG Select Committee inquiry 2010 – regional spatial strategies

The Communities and Local Government Select Committee took evidence from a variety of bodies during its inquiry into the abolition of regional spatial strategies. As part of this inquiry witnesses were asked about the New Homes Bonus Scheme.

The Committee's report, [Abolition of Regional Spatial Strategies – a planning vacuum?](#) was published in March 2011.<sup>37</sup>

The Committee's recommendations for the New Homes Bonus are reproduced below:

We recommend that the Government ensure that the New Homes Bonus scheme keeps the local development plan at its heart, where planning decisions are based on sound evidence and judged against criteria which include issues of sustainability. It should do so by explicitly linking the Bonus to homes provided for in the local plan following robust assessments of housing need. We agree that it should be paid only when those homes are actually built.

We recommend that the Government redesign the New Homes Bonus so that it better rewards the meeting of demonstrable need for affordable housing.

The [Government's response to the Committee's report](#) was published in June 2011 – the relevant extract is reproduced below:

The New Homes Bonus is intended to create a more receptive environment for new housing development by returning the natural economic benefit of growth to the local level.

However, as was made clear in DCLG's summary of responses to the New Homes Bonus Consultation:

*"The New Homes Bonus...is not intended to encourage housing development which would otherwise be inappropriate in planning terms. Local planning authorities will be well aware that when deciding whether or not to grant planning permission they cannot take into account immaterial considerations. The New Homes Bonus cannot change this and nor is it intended to. Local planning authorities will continue to be bound by their obligations here."*  
Our position on this has not changed.

A new clause (New Clause 124) was added to the Localism Bill on 17 May 2011, during the House of Commons report stage and third reading of the Bill on Wednesday 18 May.

Our intention in making this amendment is to clarify the current legal situation. That is, to confirm that issues relating to local finance considerations such as the New Homes Bonus or the Community Infrastructure Levy can be taken into account in the determination of planning applications, just as S106 payments can – but only where they are material to the particular application being considered.

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<sup>37</sup> HC 517, Second Report of 2010-11, March 2010

The amendment does not affect the status of the development plan in the determination of planning applications, or the legal framework for plan-making.

[...]

We agree that it is crucial that we ensure that there is a good balance of market and affordable homes and the New Homes Bonus gives an incentive to local councils to help meet the needs of local people. The scheme provides an additional £350 for each affordable home for the following six years. This means that the bonus available for an affordable home will be up to 36 per cent more than for a similar market home. We believe this strikes the right balance between providing a credible incentive that will increase the supply of affordable housing and ensuring that the scheme does not skew the market in favour of affordable homes.

The responses to the Government's consultation on the New Homes Bonus were broadly supportive of the principles underpinning the scheme and the way it is being implemented. A summary of the comments was published alongside the final scheme design on 17 February 2011.<sup>38</sup>

### 3. CLG Select Committee Inquiry 2011: Financing Housing Supply

A range of bodies submitting evidence (oral and written) to the Committee's 2011-12 inquiry into [financing new housing supply](#) took the opportunity to comment on the New Homes Bonus. Some doubted that the bonus provided any additional incentive to build houses<sup>39</sup> while others argued for a change in its distribution and for "recalibration."<sup>40</sup> The Committee's final report did not contain specific recommendations in relation to the bonus.

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<sup>38</sup> [CM 8103](#), June 2011

<sup>39</sup> HC 1652, [Eleventh Report](#) of 2010-12, April 2012, Ev 38 & 39 – see also [volume II](#) containing additional written evidence.

<sup>40</sup> HC 1652, [Eleventh Report](#) of 2010-12, April 2012, Ev 130 - see also [volume II](#) containing additional written evidence.

## 4. National Audit Office Report March 2013

The NAO's report on the [New Homes Bonus](#)<sup>41</sup> examined whether the Department was meeting its objective of incentivising local authorities to encourage the development of more homes. It was accepted that it was too early for the scheme to have achieved its full impact.

The simplicity of the scheme was praised by the NAO as were the Department's efforts to avoid the risk of paying disproportionate awards to local authorities that set relatively high levels of Council Tax. However, the NAO noted that because the NHB varies with relative house prices, "on average local authorities in areas with higher relative house prices receive higher payments for similar new homes."

Separating out the impact of the NHB from other measures aimed at increasing housing supply is complex. DCLG has concluded:

... it would be impossible to calculate definitively how far the Bonus is responsible for any change in the rate of creation of new homes because of the Bonus' interplay with other policies, the long-term nature of housebuilding and the wide-ranging effects of barriers such as availability of financing for housing developers and whether there is viable land for housing. Such barriers can be powerful, and their influence varies widely depending on the local new-housing market.<sup>42</sup>

The NAO concluded that DCLG's estimate of the potential increase in new house building attributable to the NHB was "unreliable":

The Department estimated that the Bonus would increase housing supply by 8 to 13 per cent over its first ten years, equivalent to around 140,000 additional homes. The Department produced the estimate using modelling for which the assumptions were unrealistic, being based on very limited evidence of local authorities' actual behaviour. The calculation also contained a substantial arithmetical error which, when corrected, reduces the estimate by around 25 per cent (paragraphs 1.18 to 1.21).<sup>43</sup>

The NAO was critical of DCLG's decision not to monitor the early impact of the NHB – a decision made due to the time lag between gaining planning approval and the completion of new housing:

By not monitoring the early impact of the Bonus more closely, the Department missed the opportunity to gain insights that might apply to other incentive-based funding that it is introducing from April 2013.<sup>44</sup>

In terms of impact, while accepting that it was too early to assess whether the NHB would increase house building, the NAO found "little evidence that the Bonus had yet made significant changes to local authorities' behaviour towards increasing housing supply."<sup>45</sup> Evidence

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<sup>41</sup> [HC 1047](#) of Session 2012-13

<sup>42</sup> *Ibid.*, para 11

<sup>43</sup> *Ibid.*, para 12

<sup>44</sup> *Ibid.*, para 14

<sup>45</sup> *Ibid.*, para 15

indicated that it had “mainly rewarded home creation that was not incentivised by the Bonus.”<sup>46</sup> The NAO did find evidence that the Bonus had given authorities resources to protect activities around tackling empty dwellings.<sup>47</sup>

The NAO was critical of the impact that funding the NHB through deductions from Formula Grant was having on some authorities:

The Department’s decision to fund a large part of the Bonus from a deduction from the Formula Grant is seen by some local authorities as unfair. Local authorities that earn only low levels of Bonus will not make up their share of the sum deducted from the Formula Grant. These local authorities are usually in areas where developers are less likely to want to build housing, which are more typically in deprived parts of the country or in areas where land can be more expensive to develop. As we described in our recent report *Financial sustainability of local authorities*, these authorities will need to find ways of managing the financial impact of their inability to make up the reduction of the Formula Grant from receipts of the Bonus.

The total Bonus increases as it builds towards an estimated payment of £1.4 billion in the sixth year. Some local authorities will gain substantially while others will experience further substantial net reductions in the Formula Grant. The Department was aware the Bonus could result in large cumulative losses for some local authorities, though this effect was not covered in the impact assessment and the Department has done no analysis of the position of individual local authorities. The Department’s main mitigation of this impact is the general protection afforded by the Transition Grant. The redistributive effect will increase from April 2013 when the Formula Grant to local authorities will no longer be reduced to account for additional council tax collected on new homes.<sup>48</sup>

The NAO’s recommendations called on the Government to review the NHB and monitor its impact and other financial pressures on the spending power of local authorities.<sup>49</sup>

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<sup>46</sup> Ibid., para 16

<sup>47</sup> Ibid., para 18

<sup>48</sup> Ibid., paras 20 & 21

<sup>49</sup> Ibid., para 24

## 5. Public Accounts Committee Report October 2013

Following on from the NAO's findings the PAC took evidence from the Department for Communities and Local Government's Permanent Secretary, Director of Local Government Finance and Director-General for Neighbourhoods, about the implementation and achievements of the New Homes Bonus. The PAC criticised the Government's failure to evaluate the impact of the Bonus in terms of influencing local authorities' behaviour:

The success of the Bonus should be evaluated to reflect whether: a) local authorities encourage more homes to be built if they are incentivised by the prospect of receiving Bonus payments; b) the prospect of losing formula funding changes their behaviour if they do not; and c) the Bonus simply rewards a local authority for what they would have done anyway. This change from a grant to an incentive-based means for funding local government makes it essential to assess whether the Bonus is achieving its objectives as early as possible. We would have expected the Department to have planned a systematic evaluation from the outset to track its impact on local authorities' behaviour towards housing development, and the cumulative impact of the Bonus alongside the Department's other policies affecting local authority funding.<sup>50</sup>

The PAC called for an urgent evaluation of the scheme. Sir Bob Kerslake, then Permanent Secretary at DCLG, expressed his disappointment at the Committee's findings:

I am disappointed by today's report and have some significant disagreements with its findings. We have made very clear that our review of the [New Homes Bonus](#) is underway and the groundwork will be completed by Easter 2014 as we have always promised.

The whole point of the New Homes Bonus - which the committee fails to recognise - is to recognise housing growth where it occurs, with money going where those homes are needed most. That's why we've committed £1.2 billion over 5 years towards this scheme, which the National Audit Office itself found has the potential to deliver up to 100,000 additional homes over 10 years.<sup>51</sup>

The NHB review was published in December 2014 (see section 6 below).

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<sup>50</sup> HC 114, Twenty-ninth report of 2013-14, [The New Homes Bonus](#), October 2013

<sup>51</sup> [DCLG Press Release](#), 31 October 2013

## 6. DCLG evaluation of the NHB December 2014

The DCLG's evaluation of the scheme over the first four years of operation was published in December 2014: [Evaluation of the New Homes Bonus](#). The findings are briefly summarised in the following sections.

### 6.1 Impact on local authority finances

Analysis showed that the bonus provided 'a clear financial incentive for authorities' but the financial impact and subsequent strength of the incentive 'will vary for different authorities depending on the current and forecast state of their overall finance.'

The increasing size of the overall Bonus fund and an increasingly reliance on financial redistribution means there has been a shift from all authorities being better off under the policy towards a mix of around three quarters being better off and the remainder being worse off in net financial terms by 2014/15. The size of these impacts both positive and negative, have also continued to grow over time.<sup>52</sup>

Shire districts were found to be the highest net beneficiaries while more negative impacts were found in the north of England, Yorkshire and the Humber. The picture in London was more mixed 'with some of the highest positive and negative effects.'<sup>53</sup>

NHB payments were found to be 'largely matching the distribution of housing need, though there were some areas of mismatch, in particular for London authorities.'

### 6.2 Use of bonus receipts

No evidence was found that the NHB and the accompanying affordable housing enhancement 'was providing an additional incentive in increasing support specifically for more affordable homes.' There was some agreement that it was acting as an incentive to reduce the number of empty homes and was also being used for this purpose.<sup>54</sup>

### 6.3 Attitudes to house building

There was high knowledge and understanding of the NHB amongst planning officers. Around 40% agreed that it had resulted in officers and elected members being more supportive of housebuilding. However, this did not translate into the wider community 'where only 10% of planning officers agreed the Bonus had begun to increase support for new homes for this group.'

There was also limited evidence that authorities were raising awareness of the Bonus within the community, or communicating what activities and services the fund was being spent on.

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<sup>52</sup> DCLG, [Evaluation of the New Homes Bonus](#), p2

<sup>53</sup> Ibid.

<sup>54</sup> Ibid., p4



Although there were some examples where a proportion of the fund was being devolved directly to community groups, there were questions generally as to the extent to which Bonus receipts were being spent “in line with local community priorities” as was intended by the policy.<sup>55</sup>

### 6.4 Impact on housing supply

The PAC had emphasised the need for the Government to establish the NHB’s impact in terms of incentivising housing supply alongside other Government initiatives. The [Evaluation of the New Homes Bonus](#) highlights several difficulties in isolating the NHB’s impact:

There are other challenges in being able to isolate the potential impact of the Bonus specifically on attitudes and behaviours and subsequent housing outputs. There are a wide range of factors which, over the period of the evaluation, will also be influencing attitudes and behaviours. These include the state of the economy and housing market, wider planning reforms, house builder confidence and changes in the state of local government finances amongst others. The National Audit Office in their report into the Bonus concluded (para 1.25) “*It is not possible to separate out the impact of the Bonus from other policies and wider factors affecting housebuilding. Neither is it possible to robustly assess what the housing supply would have been without the Bonus.*”

27. Finally, the New Homes Bonus is still at a relatively early stage in terms of the size of the financial incentive involved. Because increases in housing stock receive Bonus payments for six years, the amount of payments gained will accumulate over time as more homes are added in each financial year. Consequently, an increasing amount of Bonus payments will also be derived from the redistribution of local government funding. As we are only four years into the programme the full effects of the policy are yet to be seen.<sup>56</sup>

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<sup>55</sup> Ibid., p4

<sup>56</sup> Ibid., pp12-13

## 7. The Lyons Housing Review 2014

The [Lyons Housing Review](#), commissioned by the Labour Party, was published on 16 October 2014. The review proposed three recommendations for NHB:

- The New Homes Bonus should be reviewed to consider:
- whether the New Homes Bonus should be retained in its current form;
- assessment of whether it has an element of deadweight, rewarding housing growth that it has not incentivised; and
- the redistributive impact of the policy.<sup>57</sup>

The issue of housing growth not incentivised by NHB was also highlighted in a July 2014 Parliamentary Question from Cheryl Gillan:

To ask the Secretary of State for Communities and Local Government whether a local planning authority which rejects a housing development application which is subsequently approved on appeal by the Planning Inspectorate are still eligible for the New Homes Bonus.<sup>58</sup>

This was confirmed to be the case in Kris Hopkins' response.

The Lyons recommendation on redistributive impact followed a July 2014 *Financial Times* investigation into NHB and its relative impact on local authority budgets:

London, the Southeast, Southwest and East Anglia have reaped £177m more than they would have done without the bonus – to the detriment of authorities in the Midlands and the North.

The 50 most deprived councils have lost out on £111m while the 50 least deprived have gained £96m. The NHB has also rewarded Tory-held councils by £155m and Lib Dem authorities by £18m while in effect removing £177m from Labour-held authorities.

Those calculations are based on how much councils would have received if the New Homes Bonus was distributed to local authorities in the same way as the general formula grant.<sup>59</sup>

However in March 2014, then Economic Secretary to the Treasury, Nicky Morgan, argued:

It is interesting to note that Tower Hamlets, one of the poorest boroughs in London, has received £49 million from the new homes bonus, compared with £6 million for Wokingham, so he (Hilary Benn) is not entirely right to say that money has been taken from the poorest authorities in the country.<sup>60</sup>

<sup>57</sup> Housing Commission, [The Lyons Housing Review](#), October 2014

<sup>58</sup> [PO 202127](#) [on housing: planning permission], 3 July 2014

<sup>59</sup> *Financial Times*, [Flagship government housing scheme shifts cash from north](#), 27 July 2014

<sup>60</sup> [HC Deb, 24 March 2014, cc125-126](#)

## 8. DCLG Consultation 2015-16: Sharpening the Incentive

Following the General Election, the [2015 Autumn Statement](#) included an announcement that:

...the government will also consult on reforms to the New Homes Bonus, including means of sharpening the incentive to reward communities for additional homes and reducing the length of payments from 6 years to 4 years. This will include a preferred option for savings of at least £800 million, which can be used for social care. Details of both reforms will be set out as part of the local government finance settlement consultation, which will include consideration of proposals to introduce a floor to ensure that no authority loses out disproportionately.<sup>61</sup>

The then Secretary of State for Communities and Local Government, Greg Clark, confirmed that the scheme would continue in some form, subject to changes made through the consultation;

Another important provision of the settlement is the continuation of the new homes bonus. It had not been guaranteed that the existing scheme would continue through the spending review period. I believe that the bonus has been a valuable source of funding for councils and a spur to much-needed house building, so I am very happy that the scheme will continue, subject to the changes on which I am consulting.<sup>62</sup>

The consultation proposals were published by DCLG in December 2015, [New Homes Bonus: Sharpening the Incentive](#). This was a 12 week consultation, with a closing date of 10 March 2016.

The consultation was framed in the context of the 2015 Spending Review:

This confirmed the intention to move to full retention of business rates by 2020 and a preferred option for savings of at least £800 million, which can be used for social care. Savings in the overall cost of the Bonus will be redistributed with the local government settlement, in particular to support authorities with specific pressures, such as in adult social care budget.<sup>63</sup>

No changes were proposed for calculation of 2016-17 allocations or payments due to be made in 2016-17 relating to previous years. The options for change are briefly summarised in the following sections.

### Changing the number of years over which payments are made

DCLG consulted on whether, from 2017-18, the number of years for which legacy payments under the Bonus are to be paid should be reduced from 6 to 4 years. This was the preferred option, but consideration was also given to reducing payments to 3 or 2 years.

The rationale presented by DCLG for this proposal was:

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<sup>61</sup> [Spending Review and Autumn Statement 2015, p.59](#)

<sup>62</sup> [HC Deb 10 February 2016, cc1644](#)

<sup>63</sup> [New Homes Bonus: Sharpening the Incentive](#), December 2015

At present, each year's allocation under the Bonus leads to "legacy" payments over 6 years. Originally, this was to compensate for reductions in settlement allocations which reflected growth in an authority's Council Tax base. However, since 2011, the decision has been taken not to reduce allocations in this way. At the same time, the way in which each year's allocations lead to commitments over several years leads to a build-up of costs over time.<sup>64</sup>

Proposals regarding the transition of this change were included in the consultation document and included an intermediate change of 5 years in 2017-18 and then 4 years from 2018-19.

## Reforms to improve the incentive

The consultation document presented three ways in which the incentive impact of the Bonus might change;

- withholding new Bonus allocations in areas where no Local Plan has been produced in accordance with the *Planning and Compulsory Purchase Act 2004*;
- reducing payments for homes built on appeal; and
- only making payments for delivery above a baseline representing deadweight.

### **Withholding the Bonus where no Local Plan has been produced**

Local Plans are the primary basis for identifying what development is needed in an area and deciding where it should go. Plans give communities and businesses alike certainty about what development is appropriate and where, and set out how local housing and other development needs will be met. Plans are the mechanism through which national policies are applied to specific localities. By identifying sites in a Local Plan authorities can guide development to the most suitable locations, supported by the right infrastructure. Plans provide the starting point for dealing with planning applications as applications must be determined in accordance with the development plan, unless material considerations indicate otherwise. Where a plan is not in place an area may be more vulnerable to unwanted or speculative development.

Local authorities have had more than a decade to produce Local Plans in accordance with the Planning and Compulsory Purchase Act 2004 ("the 2004 Act"). Most have done so – 83% of local planning authorities have published a Local Plan.

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. Their legacy payments relating to allocations in previous years would be unaffected.<sup>65</sup>

This proposal caused concern amongst some local councils, who said that they were unable to submit a plan until they received housing data from neighbouring authorities and thus could lose out on the bonus,

<sup>64</sup> [New Homes Bonus: Sharpening the Incentive](#), para 3.3 December 2015

<sup>65</sup> [New Homes Bonus: Sharpening the Incentive](#), para 3.12 December 2015

“or consider taking our core strategy off the shelf and just pushing that through for approval.”<sup>66</sup>

### **Reducing payments for homes allowed on appeal**

Currently, where a development is granted planning permission on appeal, overturning the original decision made by a local planning authority (or in place of a decision by the authority in the case of appeals against non-determination), councils receive the same reward as when development takes place that the local planning authority has permitted. This means that Bonus payments do 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 residential development is allowed on appeal.

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 (which may be indicative numbers in the case of applications for outline planning permission). 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.<sup>67</sup>

DCLG consulted on whether to reduce payments by 50% or 100%, but said that they were “interested in views on other percentage reductions.”

### **Removing deadweight**

The Bonus is currently paid on all new housing regardless of whether or not it would have been built without an incentive. Removing this deadweight from the calculation of the Bonus would allow payments to be more focussed on local authorities demonstrating a stronger than average commitment to growth.

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. Details of the calculation are outlined in the Annex to this consultation. A possible level of the baseline is 0.25%. 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. The approach proposed also has the advantage of setting an expectation for growth for all authorities and allowing some flexibility to respond to a changing funding envelope if necessary.

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, potentially, this would have the impact of “rewarding” authorities who had only achieved low growth in the past and penalising those who had done well. In addition, it could result in large numbers of authorities not receiving a Bonus payment at all (using 2016-17 provisional figures, we estimate

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<sup>66</sup> [The councils without local plans that could lose millions in New Homes Bonus payouts](#), 2016

<sup>67</sup> [New Homes Bonus: Sharpening the Incentive](#), para 3.20 December 2015

that around 65 authorities would fall outside the Bonus with a “moderate” baseline of 0.5%).

Government would also make adjustments to the baseline in order to reflect significant and unexpected housing growth. Under the current proposals for calculation of allocations, there is a risk that the overall cost of the Bonus could go over budget in a given year in the event of a sudden national surge in housing building leading to increased allocations.<sup>68</sup>

The same adjustments were considered in areas covered by National Parks, the Broads Authority and development corporations, as well as county councils who are not the planning authority for decisions involving residential development.

The consultation also looked for views on the fact that:

...some local authorities might be particularly adversely affected by the changes which Government is proposing. Whilst this might reflect unwillingness to support and encourage housing growth in their areas, it might also suggest factors which are outside that local authority’s control. 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 this consultation paper.<sup>69</sup>

## 8.1 Early responses to the proposals

Formal responses to the proposals were requested by DCLG by 10 March 2016.

Initial comment by local authorities warned that the proposals might act as a disincentive to building new homes.

A spokesperson for Sheffield City Council said the proposal to cut payments to four years could “adversely affect housing delivery” because the council has in the past used bonus payments to support new house [building](#) and reduce the number of empty homes. The proposal to cut payments for councils that only grant new housing developments on appeal could “encourage” some councils to approve “poor quality [development](#)”, the Sheffield spokesperson added.

Fiona Colley, cabinet member for [finance](#), modernisation and performance at Southwark Council, said the government “frequently refers to the desperate need for new homes” but the proposed changes “decrease the incentive for councils to [build](#) houses”.

A spokesperson for Conservative-led Barnet Council said the reduction in the New Homes Bonus payment “may lead to a reduction in the amount of infrastructure we can provide to local communities”.<sup>70</sup>

The Home Builders Federation was in agreement with elements of the proposals:

We support the move to pay New Homes Bonus (NHB) for 4 years instead of the current 6 year period. Not only will this encourage local authorities to continue to plan positively for dwellings in

<sup>68</sup> Ibid., para 3.28-3.31

<sup>69</sup> [New Homes Bonus: Sharpening the Incentive](#), para 3.39 December 2015

<sup>70</sup> [Inside Housing, Councils hit out at New Homes Bonus changes](#), January 2016

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order to maintain the income from NHB but it will also allow those authorities who have not yet fully embraced positive planning to move out of a position of not receiving NHB for 6 years to only having to wait for 4 years until the benefits of approving planning permissions for housing are reflected in NHB payments.

We agree that the NHB should be linked to the production of local plans and that such plans should be kept up to date in order to continue to receive NHB..... The "production" of a plan is certainly not the same as "adoption" of a plan, on which decisions can be based under S38(6) of the relevant Act. We are concerned, therefore, that some local authority plans that are "produced" are not fit for purpose and are found wanting at public examination. It cannot be right that such plans are rewarded through NHB. We believe that rather than relying on the production of a plan the test should be the adoption of a plan.

However, with regards to the proposals for removing deadweight, the HBF said:

While we are sympathetic to the idea of using NHB solely as an incentive to promote additional growth and delivery of houses we can see no realistic and robust way of identifying (and thus removing) "deadweight". Indeed, we believe that by trying to do so the government runs the risk of encouraging local authorities to set even lower housing targets in their local plans in order that they can "over provide" and receive NHB payments. This would, obviously, be contrary to the overall objectives of the government to increase housing delivery.<sup>71</sup>

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<sup>71</sup> [A response by the Home Builders Federation](#), March 2016

## 9. Amendments to the NHB from 2017

The Secretary of State for Communities and Local Government, Sajid Javid, announced changes to the NHB scheme as part of the Local Government Finance Settlement in December 2016. He said that since its introduction in 2011, more than £6 billion had been paid to reward local authorities for delivering more than 1.2 million homes but went on to say: “for all its successes, the system can be improved.”<sup>72</sup>

He said that the Government had studied the responses to the 2015-16 consultation exercise and confirmed the following decisions:

- From 2017 a **national baseline for housing growth will apply of 0.4%**. Below this, the NHB will not be paid. The aim of this change is to ensure that “the money is used to reward additional housing rather than just normal growth”.<sup>73</sup>
- **The number of years for which payments are made will be reduced** from six to five years in 2017-18 and reduced further to four years from 2018-19. The funding released from this measure will be retained by local authorities to contribute towards adult social care costs “recognising the demographic changes of an ageing population, as well as a growing population”.<sup>74</sup>

The Secretary of State said that, from 2018-19, the Government would consider withholding NHB payments from local authorities that are not planning effectively and delivering housing growth. Payments may also be withheld in respect of homes built following an appeal “to encourage more effective planning”. The Government said that consultation would take place on this “in due course”.<sup>75</sup>

### Comment

Following the announcement, the District Councils’ Network issued a response in which it expressed significant concerns about the introduction of a 0.4% growth baseline:

While a continued focus on rewarding those councils that deliver the most housing growth is welcomed, the DCN is extremely concerned that the substantial reduction in funding for NHB for all councils, particularly the introduction of a ‘deadweight’ baseline of 0.4%, will blunt its positive impact and have a detrimental effect on acceptable growth, rather than sharpen its focus – at a time when housing growth is the number one priority for the Department for Communities and Local Government.

The new deadweight baseline of 0.4% – which will mean that NHB is only paid at growth above this level – is an arbitrary figure which will cut approximately £45m from NHB allocations to district councils in 2017/18 and is at a higher level than the original consultation proposed.

<sup>72</sup> [HC Deb 15 December 2016 cc976-7](#)

<sup>73</sup> [HC Deb 15 December 2016 cc977](#)

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.



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Some district councils will receive no additional New Homes Bonus cash for 2017/18 as a result of this change, contrary to the Government's aspiration to encourage growth, and we call on the Government to reduce the level of the baseline, to reduce the impact on all district councils.

[...]

From analysis of DCLG figures, the overall impact on district councils of all changes to New Homes Bonus for 2017/18 represents a reduction of approximately £75m, £45m of which is because of the new baseline rate.<sup>76</sup>

District councils called for the NHB baseline level to be fixed at 0.25% for two years to allow for a period of transition.<sup>77</sup>

There was some regret amongst planning bodies that decisions on withholding the NHB for schemes won on appeal and removing entitlement from authorities behind on their local plan production had been delayed:

The mooted changes which are not being implemented are potentially a missed opportunity, as withholding New Homes Bonus for schemes won on appeal would provide further incentives for officers and members to ensure that their decision-making is robust. Removing New Homes Bonus for authorities behind on their local plan production would have represented a suitable 'stick' to speed up the adoption of plans, on which the planning regime – and the National Planning Policy Framework are dependent. Financial incentives linked to positive planning outcomes would also provide local authority planning chiefs a stronger hand in arguing for a larger share of the budget for their departments.<sup>78</sup>

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<sup>76</sup> [District Councils' Network responds to provisional local government finance settlement 2017-18](#), 15 December 2016

<sup>77</sup> Public Finance, [District protest changes to New Homes Bonus in settlement response](#), 13 January 2017

<sup>78</sup> Planning Matters, [New Homes Bonus – a missed opportunity?](#) 17 January 2017

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