

Consultation response

Shelter's response to the Communities and Local Government consultation on the New Homes Bonus

December 2010

shelter.org.uk/policylibrary

© 2010 Shelter. All rights reserved. This document is only for your personal, non-commercial use. You may not copy, reproduce, republish, post, distribute, transmit or modify it in any way.

This document contains information and policies that were correct at the time of publication.

Shelter is a national campaigning charity that provides practical advice, support and innovative services to over 170,000 homeless or badly housed people a year. This work gives us direct experience of the various problems caused by the shortage of affordable housing across all tenures. Our services include:

- A national network of over 40 advice services
- Shelter's free housing advice helpline which runs from 8am–8pm
- Shelter's website (shelter.org.uk/getadvice) which provides advice online
- The Government-funded National Homelessness Advice Service, which provides specialist housing advice, training, consultancy, referral and information to other voluntary agencies, such as Citizens Advice Bureaux and members of Advice UK, who are approached by people seeking housing advice
- A number of specialist services promoting innovative solutions to particular homelessness and housing problems. These include Housing Support Services which work with formerly homeless families; the Shelter Inclusion Project, which works with families, couples and single people who are alleged to have been involved in antisocial behaviour; and, prison services providing housing advice and support to offenders which enable them to acquire and maintain suitable accommodation on release, which reduces re-offending. The aim of these services is to sustain tenancies and ensure people live successfully in the community.

We also campaign for new laws and policies – as well as more investment – to improve the lives of homeless and badly housed people, now and in the future.

Introduction

With an escalating housing crisis and the building of new homes at the lowest rate for nearly a century, Shelter welcomes any proposal that incentivises local residents to favour, and councils to encourage, the building of new homes. If our housing crisis is to be resolved, new homes must be affordable to people on average and below average local incomes.

Affordable housing enhancement

We therefore strongly support the principle of an enhanced payment to incentivise affordable housing. However, the proposed definition of affordable housing for the purposes of the bonus¹ is very broad. It includes shared ownership housing and accommodation for rent on short fixed-term tenancies with rents not much below market rates. These types of homes are often beyond the reach of people on modest local incomes². We would like to see the affordable housing enhancement distinguish between different types of affordable housing, so that social housing let at, or below, social target rents attracts a greater incentive than the proposed flat rate of £350 a year per dwelling.

Unit of reward

We are also concerned about the impact on affordable house building of the general unit of reward being based on the national average band of each dwelling built. Whilst this calculation method is more likely to incentivise much-needed family-sized homes than a bonus calculated on the overall national average council tax payment level, the largest bonuses will be for homes falling into the highest council tax bands (E, F, G and H). These tend to be more expensive, private 'executive homes', rather than affordable (and particularly social rented) family housing, which tends to fall into lower council tax bands. We would therefore like to see the bonus capped at the national average for council tax band D. There is scope for the money saved through this measure to be used to pay for an additional enhancement for social rented housing at or below target rents.

Scheme design

The incentive should also be viewed in the context of a 60 per cent cut to housing capital funding. Even where the bonus acts as a powerful incentive to councils to encourage affordable housing development, the massive reduction in capital grant funding may mean that development of genuinely affordable housing is much less viable.

In assessing whether the bonus will incentivise local people and their councils to build it is important to consider whether the proposals will provide councils with additional money to deal with the knock-on costs of development. In his introduction to the consultation, the Minister says that the current system does not provide communities with an adequate incentive because 'existing residents only see development as a further strain on public services'. However, the 13 December announcement of considerable cuts to council budgets (an average of 9.9 per cent for 2011/12³) will put council services under a great strain. With the scrapping of Housing and Planning Delivery Grant and the future top-slicing of formula grant being used to fund the bonus, the bonus provides no new money beyond the £950m set aside for 2011-15. Overall, where it is payable, it is more likely to constitute less of a cut.

As it is largely a redistribution of existing funding, there will be winners and losers. Council tax bands are set nationally, based on the value of properties. With the price of homes being far higher in the south of England, southern councils are likely to see more expensive property being built in their areas, with values falling into the higher council tax bands and will therefore receive a disproportionate share of

¹ As defined by Planning Policy Statement 3: Housing

² Hughes, N. (2010) *The Forgotten Households: Is intermediate housing meeting affordable housing needs*, London: Shelter

³ LocalGov.co.uk (15 December 2010) *Sweetener fails to offset taste of cuts*: 'The CLG acknowledged the average reduction to councils' formula grant in 2011/12 was 9.9%, while the LGA calculated it was 12.1%, once police grants were removed.'

the incentive, with the top-slicing in formula grant resulting in northern authorities having to provide a disproportionate amount of their formula grant to pay for it. In addition, areas that have the land and infrastructure for large-scale development (such as some existing growth areas) will stand to gain more than towns and cities with less available land. They will also gain more than areas, such as housing market renewal areas, where redevelopment or demolition leads to net losses in the number of dwellings, even where this is supported by local residents to meet housing need. Continued funding of housing redevelopment in regeneration areas will help to deal with this as would an increase in funding of the New Homes Bonus to prevent large future cuts to formula grant for some councils. It is to compensate authorities in regeneration areas that we support the enhanced bonus being paid on gross additional affordable supply.

We are concerned about the bonus being paid to councils over a year after completion, when Housing and Planning Delivery Grant (which is to be abolished and used to fund the bonus) is paid to councils in advance of development and can therefore assist them in getting developments off the ground. Whilst the bonus may provide a considerable financial incentive to councils that already have developments in the pipeline, it might jeopardise resourcing of development planning and negotiation in areas starting from a low base of net completions. This is during a period where council resources to provide up-front funding of development will be limited by their general expenditure cuts. We therefore suggest that the Government should consider compensatory mechanisms to allow councils to cover up-front costs, such as by permitting them to borrow off the back of future bonus payments.

Response to consultation questions:

1. Do you agree with our proposal to link the level of grant for each additional dwelling to the national average of the council tax band?

There are two elements to this proposed approach: (i) linking the bonus to a national average council tax rate, rather than the amount of council tax collected locally; and (ii) varying the bonus by the council tax band of the home that is provided, rather than using an average across all bands. We have considered each element in turn.

National Average Rate

We welcome this approach. It ensures the scheme operates fairly across the country because the incentives for providing net housing additions are consistent, rather than a bonus that varies across council boundaries according to local council tax rates. It would be undesirable for the scheme to incentivise councils to raise council tax, or to penalise authorities that have set a lower council tax. It would also be much simpler to administer.

Variation by Council Tax Band

We welcome this approach as it should incentivise councils to encourage the development of much-needed family sized homes rather than small flats.

However, the suggested bonus associated with the highest council tax band (Band H, £17,000) is 2.8 times higher than the bonus associated with the lowest (Band A, £6,000) and considerably higher than the council tax band most commonly associated with typical family housing (Bands C and D, associated with a bonus of £8,000 or £9,000 respectively).

Consequently the proposed system based on matching the council tax by band may provide a greater incentive for developments of private 'executive homes' rather than more affordable family homes, which would meet the needs of people on average or below average local incomes. The new system will also be geared against social housing as this tends to sit within council tax bands A and B. For example, a council in the south would on average have to build three social homes to match the reward for one executive home.

To overcome this problem, we suggest that the bonus is capped at the national average for council tax band D. In this case, councils would still receive the bonus for delivering more expensive housing types, if that is demanded locally, however it would ensure that areas delivering housing that largely beyond the means of most households in housing need are not disproportionately rewarded. We also suggest that an enhanced bonus should be provided for social housing rented at or below target rents, which could be funded by savings generated by the band D cap.

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

Shelter welcomes the proposals for an additional incentive for providing affordable housing. However, we have some reservations over the impact this reward will have, particularly when delivered within a model that matches the average council tax collected for each council tax band.

For each affordable dwelling delivered, the local authority will receive an additional £2,100 over six years. However, the bonus associated with an affordable Band C property is still lower than the bonus associated with a private Band E property.

Council Tax Band	NHB for a Market Property	NHB for an Affordable Property
Band C	£7,674	9,774
Band D	£8,634	£10,734
Band E	£10,554	-

Source: New Homes Bonus Calculator, CLG 2010

Capping the New Homes Bonus at the Band D rate, as suggested above, would ensure that there is always a financial incentive for delivering additional family sized affordable homes.

It would also be helpful if there were differing levels of incentive for different types of affordable housing in recognition of different types of housing need. Social rented housing should attract a higher level of incentive than intermediate housing, including the proposed new 'affordable rent' tenure.

3. Do you agree with the proposal to use PPS3 and also include pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords to define affordable homes?

We agree with this proposal as it encourages councils to meet the housing needs of people whose housing requirement is for an adequately resourced site rather than a bricks and mortar development.

4. Do you agree with the proposal to reward local authorities for bringing empty properties back into use through the New Homes Bonus?

We agree with the proposed payment of the New Homes Bonus for bringing empty properties back into use. This would provide a good incentive to restore empty homes, which can contribute to meeting housing need and should rightly be counted as additions to the overall housing stock. However, empty homes can be situated in low demand areas, and may not always be suitable for conversion to affordable homes.

The system does not appear to incentivise councils to tackle the worst empty homes first. The level of council tax discount is the same for a property that has been empty for five years, and is maybe attracting problems such as vermin, litter and crime, and one that has been empty for six months and

may soon be sold or rented out, for example following the death of the occupant. We suggest that the Government examines whether councils should be incentivised to prioritise homes that have been empty for more than twelve months. We also believe that the bonus should only apply to private sector empty homes; applying it to publicly owned stock would unnecessarily reward local authorities for renovating and re-letting their own housing.

Are there any practical constraints?

Council tax data on empty homes is not wholly reliable. To ensure that councils record empty homes for bonus purposes in a consistent, accountable manner, there is scope for government to issue guidance on the methodology to be used.

5. Outside London: Do you agree with the proposal to split the payment of the New Homes Bonus between tiers: 80 per cent to the lower tier and 20 per cent to the upper tier, as a starting point for local negotiation?

This seems sensible as lower tier authorities are responsible for planning.

If not, what would the appropriate split be, and why?

We have not considered this in detail.

6. Do you agree with the proposal to use the data collected on the Council Tax Base form as at October to track net additions and empty homes?

Comparing Council Tax Base information for the year concerned with a baseline figure will give a net change figure, which will automatically take into account demolitions.

This will mean that regeneration areas such as the former Housing Market Renewal pathfinders will find themselves disincentivised to carry out improvements or to replace dilapidated stock with new homes, as a one-for-one replacement would not result in a net increase and thus would not attract any New Homes Bonus money.

7. Do you agree with the proposal for one annual allocation based on the previous year's Council Tax Base form, paid the following April?

We have concerns about the bonus being paid to councils over a year after completion and occupancy, when Housing and Planning Delivery Grant (which is to be abolished and used to fund the bonus) is paid to councils in advance of development and can therefore assist them in getting developments off the ground. Allocation of the bonus in this manner will provide a considerable financial incentive to councils that already have developments in the pipeline, but there is a risk it could jeopardise resourcing of development planning and negotiation in areas starting from a low base.

Also, by allocating the bonus on completion and occupation, councils receive no incentive for consenting to development. Councils can control planning consents but are less able to control housing delivery, which is dependent on a wide range of external factors, such as the national and local economy and financial situation, financial viability of the site and the national allocation of housing capital investment, which has recently been cut by around 60 per cent.

We therefore suggest that the Government should consider compensatory mechanisms to allow councils to cover up-front costs, such as by permitting them to borrow off the back of future bonus payments.

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

We have not considered this issue.

9. Do you agree with the proposal to reward local authorities for affordable homes using data reported through the official statistics on gross additional affordable supply?

We welcome the decision to pay the affordable housing element of the bonus on gross additions.

10. How significant are demolitions?

Demolitions are significant in Housing Market Renewal pathfinder areas. From 2003–04 to 2006–07, housing market renewal area funded activity included 15,254 demolitions, compared to 3,744 new builds, and 59,046 refurbishments⁴. For these areas, demolition was an important part of the strategy in tackling low demand housing, creating more sustainable housing markets, and improving the quality and choice of housing in these areas. Although a large proportion of demolition has already taken place in the pathfinder areas, the New Homes Bonus must not penalise areas in the future which may have to employ demolition strategies for obsolete housing to improve and regenerate declining neighbourhoods. Local authorities should not be deterred from demolition if this is the most appropriate, and locally supported, solution.

Is there a proportionate method of collecting demolitions data at local authority level?

Data on demolitions is currently collected through the Housing Flows Reconciliation returns for local authorities outside London, and by the Greater London Authority in London.

Housing and Planning Statistics 2010⁵ states:

Data on demolitions may be incomplete due to the limitations on the data collection mechanisms available to local authorities.

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

Affordable, and particularly social, housing with rents at or below the target rent level meet the housing needs of households with lower incomes. Black and Minority Ethnic people are over-represented in the lower income quartiles. BME groups make up 10% of the population as a whole, but 17% of those households living below the poverty line⁶.

⁴ CLG, Key messages and evidence on the housing market renewal pathfinder programme 2003–2009, October 2009.

⁵ CLG, 2010, *Housing and Planning Statistics*

⁶ DWP, *Households Below Average Income – An analysis of the income distribution 1994/95 – 2008/09*

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

The consultation paper and impact assessment seem confused as to which groups the bonus is expected to incentivise. For example, the impact assessment sets out that:

‘The principle aim of the scheme is to create a powerful, simple, transparent, and permanent incentive for Local Authorities and communities to increase their aspirations for housing growth. The scheme will ensure that communities reap the benefits of growth and not just the cost’.

It also sets out that:

‘The reasons for opposition are due to the negative externalities arising from development. Incentives are used to mitigate externalities, which can reduce local opposition to development and thus can lead to greater supply’.

However, the New Homes Bonus is set within a context of headline cuts to the formula grant and will become revenue neutral over the longer term. Consequently, the Impact Assessment also recognises that:

‘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’.

The impact assessment recognises that opposition to housing development will often occur within neighbouring and local communities, but assesses the impact of the New Homes Bonus on the basis of three behaviour types adopted by local authorities.

Where a council’s behaviour is characterised by Option 2 (to ‘build away the losses’ in formula grant) the incentive provided by the bonus will be spread across all residents of the local authority area. Consequently, for those communities that neighbour and oppose a proposed development location, the ‘large’ costs associated with the perceived negative externalities of development (such as to transport infrastructure and local services) are unlikely to be countered by the small benefits provided by the bonus, which is likely to be used by the council to deliver existing services.

In estimating the impact on housing delivery, the impact assessment does not consider the scenario where a council’s planned level of growth cannot be delivered due to localised resistance in neighbourhood planning.

In reality, the Community Infrastructure Levy may provide a more tangible incentive to local residents as funding raised via this mechanism will be used to deliver local and strategic infrastructure improvements that can mitigate the adverse impacts of local development.

In addition to this central point, the impact assessment appears to be highly speculative in its choice of scenarios. No reasoning is provided for the categorisation of local authorities between the three behaviour types and the random allocation of behaviour types to all local authorities takes no account of the way in which local housing and land constraints may affect a council’s behavioural choices. Furthermore no justification is provided for constraining housing growth at 30% above the baseline rate, nor for the assumption of exponential growth prior to this threshold.

In relation to the Specific Impact Tests, under Social Impacts the impact assessment reports that ‘it is not anticipated that there will be any adverse impacts in terms of health / human well-being, human rights, or the justice system’. Given that the impact assessment clearly states that the bonus is cost

neutral and redistributive, and that there will be winners and losers, we question the assumption that there will be no health and human well-being costs in areas that lose as a result of this mechanism. In these areas it is likely that the spending cuts will be deeper and affect a broader range of services as a consequence of the bonus not being paid for by sustained new funds or direct local taxation.

We suggest that the Government should undertake research into the impact of the New Homes Bonus one year after the first payment has been made, and thereafter at two yearly intervals, to establish the impact it is having on neighbourhood, local and spatial planning, house building and the delivery of local services (including homelessness and housing-related services).

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

As it is largely a redistribution of existing funding, there will be winners and losers. Councils in the south of England will see more expensive property being built in their areas and will therefore receive a disproportionate share of the incentive, with the top-slicing in formula grant resulting in northern authorities having to provide a disproportionate amount of their formula grant to pay for it. In addition, areas that have the land and infrastructure for large-scale development (such as some existing growth areas) will stand to gain more than towns and cities with less available land. They will also gain more than areas, such as housing market renewal areas, where redevelopment or demolition leads to net losses in the number of dwellings, even where this is supported by local residents to meet housing need. Continued funding of housing redevelopment in regeneration areas will help to deal with this as would increased funding of the New Homes Bonus to prevent large future cuts to certain council's formula grant.