Local Government Association submission, New Homes Bonus: Sharpening the Incentive Technical Consultation

March 2016

1. About the Local Government Association

The Local Government Association (LGA) is the national voice of local government. We work with councils to support, promote and improve local government.

We are a politically-led, cross party organisation that works on behalf of councils to ensure local government has a strong, credible voice with national government. We aim to influence and set the political agenda on the issues that matter to councils so they are able to deliver local solutions to national problems. The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

This response has been approved by lead Resources Portfolio holders and Lead Members of the Environment, Economy, Housing and Transport Board.

2. Response to questions in the consultation

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

The consultation confirms that the context is one where, as one of the outcomes of the 2015 Spending Review, the Government intends to reduce the New Homes Bonus by £800 million which can be used for social care. This saving contributes to the Improved Better Care Fund which will reach £1.5 billion by 2019-20. In that context the proposal is made to save money. The LGA notes that but will not take a specific view on the plan to move to 4 year payments. Some authorities, particularly, shire districts, will point out that moving from six to four years implies large losses, particularly in 2018-19, with total shire district spending power predicted to fall by 7.3% in that year, the first in which the four year payments will apply. Other authorities, particularly those with high needs, have long maintained that a top-slice from settlement funding to fund the New Homes Bonus disadvantages higher need authorities.

The LGA notes that the consultation does not say how it is proposed to fund the bonus once 100 per cent business rates retention comes in. We note that the New Homes Bonus is just part of the funding of councils and that the Government will be carrying out a needs review in connection with the move to 100 per cent business rates retention. Many councils will look to this to make funding fairer.

Although the LGA does not comment on distributional issues, it recognises that there is a balance to be drawn between funding the growing costs of Adult Social Care in the immediate future and not diluting the incentives to generate growth, which might pay for Adult Social Care and the associated Public Health programmes for tomorrow.

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

The LGA will not take a specific view on this question but notes that some would consider that a bonus for only two or three years would reduce powerful incentives to grow even further and lead to more instability in total funding.

A number of authorities have used New Homes Bonus to fund growth projects, some of them financed by prudential borrowing. A reduction to 3 or 2 years would harm those authorities that have invested capital for the long term growth of their areas.

Submission

Local Government House, Smith Square, London SW1P 3HZ
Email: Aeneas.tole@local.go.v.uk Tel: 020 7664 3236
T

Question 3 Should the Government continue to use this approach? If not, what alternatives would work better?

This is also a question on which different member authorities will have different views. The current scheme is based on the council tax band of the new property which means that the higher the band the larger the bonus. This could be seen to benefit high taxbase authorities as opposed to lower taxbase authorities and incentivise higher value property meaning, as the consultation says, that allocations are skewed in favour of areas with high house prices. Some member authorities point to this tendency to build higher banded housing – which may also be the wish of developers – but which may not accord with local needs. Although there is a premium in the Bonus for affordable housing these authorities consider that more could be done.

An alternative would be to have a standard payment which did not vary by band, although areas with high taxbases might say that this would reduce the incentive to grow in these areas.

Another idea would be to sharpen the incentive for getting empty homes back into use. The current test as to whether this qualifies or not for the Bonus is whether or not a property is on the council taxbase; there could be an incentive for bringing empty property on the taxbase back into use.

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

Councils can find the local plan making process uncertain and complex. The government is currently waiting on the recommendations of a local plan expert group on future reforms to plan-making. It does not seem right to unfairly penalise authorities for failure to submit a local plan.

In many cases, delays in adopting are beyond the control of the council controlled. One district council has had to wait 12 months from the Examination in Public to the final receipt of the Local Plan in a form that could be adopted. It would not be reasonable to penalise authorities that had completed all reasonable steps within their control but were waiting on external factors. Other councils have had their plans rejected as it was considered that there was insufficient evidence.

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

The LGA does not support authorities losing bonus for years in which they have failed to produce a local plan and does not see merit in an abatement mechanism

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

The LGA considers that this would unfairly prejudice the planning process. In the current situation where homes have to be added to the taxbase by the Valuation Office Agency to qualify for the New Homes Bonus a refusal of planning permission is likely in any case to lead to a delay in the new homes being on the taxbase, even they are granted on appeal, and therefore to a delay in the New Homes Bonus. Councils also point to developers sometimes slowing down applications and then putting in appeals for non-determination. Councils exercise their planning obligations with the aim of creating communities that work locally; this might be a reason for an application to be turned down.

If the Government decided to proceed on this basis, there would have to be a reasonableness test, perhaps determined by the Inspector when considering the matter of costs where a council has been judged to have acted unreasonably. It would not be fair if an authority refused an application on detailed design, for example, when the general principle of development had been accepted. The correct response by applicants in this case would be for revised designs to be submitted rather than force an appeal, which is expensive, time consuming and militates against the promotion of good design and public acceptability on planning.

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

As mentioned above, the LGA does not support a reduction for homes allowed on appeal. As the consultation says sometimes the refusal by the local authority can be due to technical issues such highway access. Planning applications should not be influenced by the prospect of gaining of losing NHB, but should reflect local conditions and representations made in the decision making process. It would be wrong to agree to an application for fear of losing NHB through an appeal process, it simply dilutes democratic accountability and places undue emphasis/incentive on financial loss or gain rather than objective reasoning.

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

Basing the reduction on the Band D average could be seen to unfairly affect low taxbase authorities; there could be a situation where their bonus is reduced by more than the final adjustment would be. In new developments, there are more smaller Band A properties and fewer Band G properties. It might distort the market for high density homes around commuter hubs and the appropriate mix of homes in urban centres if smaller high-density flats were banded at Band D.

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

The government propose a baseline which would be used to threshold NHB payments, this is proposed to be 0.25%.Their rationale is that this will 'remove deadweight'. However there is no evidence that developments would not have happened anyway. If there were to be a baseline a national baseline is open to challenge that areas which are more attractive for developers would be penalised in the same way as those who have had to work hard to attract development. The alternative option, of having a baseline based on the average growth rate of dwellings in each local authority area or local area, is rejected on the grounds that it could have a perverse incentive of rewarding authorities with low growth; again this does not come to terms with the fact that the 'deadweight' could be different in different areas. It is possible that in relatively low-growth areas, which still make a contribution to housing development, the baseline would exceed actual growth and remove *any* incentive to grow

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

Please see answer above. We note that it is set at around a third of the level of housing growth; it needs to be seen as a cost saving measure, on which please see the reply to question 1.

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

As mentioned in the reply to question 1 there is a question of how the bonus gets funded in an era of 100 per cent business rates retention which the consultation does not touch on. However if the bonus is to have any meaning it will be necessary to keep the total size under review; scaling it to a constant amount so that new homes in a period of unexpected housing growth would receive a scaled down bonus could be seen as unfair.

If the Government's aspiration to deliver 1 million homes by 2021 is to be delivered, then a number of very large, complicated and potentially controversial sites need to be opened. It would be a disincentive to progress these if the 'significant and unexpected' test was to penalise them.

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

The LGA does not believe that the bonus should be made contingent on agreement with national parks or development corporations, as the consultation says any agreement to split can be made locally. However national parks and similar areas would point to the fact that they receive less New Homes bonus due to restrictions on development in these areas; this is a relevant consideration to the question of the ‘deadweight’ discussed above.

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

This is a question on which county and district members of the LGA are likely to have different views. The LGA will not take a formal position. Shire districts would point to the fact that as the amounts saved are being put into the Improved Better Care Fund, upper tier councils will benefit from the adjustment from 6 to 4 years. Counties are likely to point to the spending pressures on social care.

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

The LGA can see the point of an arrangement of this nature and we would encourage the government to do more work on how it would operate. As indicated above the year in which the reduction particularly hits shire districts is 2018-19.

It could be argued that those authorities that have taken the incentives to deliver significant growth will be disproportionately affected by the reduction from 6 to 4 years. In these cases, the quantum of the NHB has funded more significant investments in infrastructure. Those authorities that can evidence that they have delivered growth and can prove they have used NHB to invest in capital should be entitled to some element of protection.