



The New Homes Bonus Scheme

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The “New Homes Bonus” is a Government scheme which is aimed at encouraging local authorities to grant planning permissions for the building of new houses in return for additional revenue. Local authorities are not obliged to use the Bonus funding for housing development. This note provides background and comment on the scheme.

A [consultation paper](#) on the scheme was published on 12 November 2010 and the [Final Scheme Design](#) was published in February 2011.

The Department for Communities and Local Government has set aside almost £1 billion over the Comprehensive Spending Review period (2011 to 2015) for the New Homes Bonus. The aim is to provide an additional 140,000 homes over a ten year period.

The context in which this scheme has been developed is one of housing supply failing to meet demand. The Government’s household formation projections show that around 232,000 additional homes are needed each year to meet housing need. Dwellings completed England reached 115,600 in 2012; an increase from 108,150 in 2010. House-building in 2009 was the lowest in peacetime since 1924. 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.”

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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.¹

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

Under the current system, when families move into new houses built in an area, the local authority receives additional council tax receipts from these properties. However, in addition to having to fund the extra services and infrastructure for these new residents and properties, local authorities that acquire larger council tax bases as a result of house building in their areas will in many cases find that the amount of formula grant they receive from central government is reduced by the equalisation process.

The present Government has recognised this anomaly – but has unfortunately produced a highly bureaucratic and ineffective solution, in the form of the Housing and Planning Delivery Grant (HPDG). This does not command the confidence of local governments who fear they will be rewarded for following procedures prescribed by Whitehall, rather than being allowed to retain the long-term financial benefits if they actually build more homes.

As the Lyons Inquiry into Local Government funding says, short term incentives like HPDG are “less likely to be able to motivate long-term changes in behaviour, or influence decisions which take more than three years to have an impact, as there is no guarantee that the scheme will continue to exist to provide the financial benefits expected”.

To tackle this deficiency, we will match the additional council tax raised by each council for each new house built for each of the six years after that house is built.

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.²

On 9 August 2010 the then 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 is aimed at encouraging local authorities to grant planning permissions for housing development:

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.

¹ <http://www.general-election-2010.co.uk/2010-general-election-manifestos/Conservative-Party-Manifesto-2010.pdf>

² Conservative Party, *Control Shift*, February 2009, p10

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.

Grant Shapps said:

"We have wasted no time scrapping the ineffective top-down planning system that forced unsustainable development on communities and are returning control of a much faster and more responsive planning system to local people.

"We will not tell communities how or where to build, or how they should grow. But the New Homes Bonus will ensure that those communities that go for growth reap the benefits of development, not just the costs.

"With housebuilding falling to its lowest level since 1924, action is needed now to build the homes the country needs. That's why these new powerful incentives to build will be introduced early in the Spending Review period. And it's why I have confirmed that those councils who go for growth by providing planning permission now will reap the rewards. So I urge councils to seize the moment and open up a debate with their communities now about the new homes they need and how they would use the new Bonus."

The Government wants to hear the views of councils, communities and industry as it finalises the scheme. A consultation paper on the final scheme will be published following the spending review.³

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

As noted above, under the scheme the Government matches the Council Tax raised on each new home for six years. This was confirmed as part of the 2010 Comprehensive Spending Review:

The Government will increase housing supply by reforming the planning system so it is more efficient, effective and supportive of economic development. In addition, it will introduce a New Homes Bonus that will directly reward and incentivise local authorities and local communities to be supportive of housing growth, equivalent to matching the additional council tax from every new home for each of the following six years. It will also reduce the total regulatory burden on the house building industry over the Spending Review period.⁵

In the wake of the 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:

In April 2011 we will introduce the New Homes Bonus, a powerful fiscal incentive for local authorities to deliver more homes. We have set aside over £900m of funding and the scheme will match fund the Council Tax on every new home for each of the following six years. Many Local Authorities have the opportunity to benefit substantially

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

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

⁵ Cm 7942, para 2.31

from this scheme, which will commence in financial year 2011-12. A consultation on the scheme design will be launched in November 2010.⁶

The Department of 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:

3.29 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. The New Homes Bonus will be a simple, powerful, transparent and permanent feature of the local government finance system. A consultation will shortly be published setting out the government's proposed model for implementation.⁷

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 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.⁸

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?

⁶ Deposited Paper 2010-1857

⁷ Cm 7961, October 2010

⁸ *ibid*

- 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.⁹

1.2 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.¹⁰ The Scheme is summarised below under a series of headings.

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. Grant is payable based on the change in dwellings on council tax valuation lists. This recognises:

- increases in housing stock;
- 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.¹¹

The [Final Scheme Design](#) contains an example calculation on pages 26-28.

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 (e.g. FirstBuy) 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.

⁹ CLG, [The New Homes Bonus](#) consultation paper, November 2010

¹⁰ CLG, [Summary of Responses to the New Homes Bonus Consultation paper](#), February 2011

¹¹ CLG, [Final Scheme Design](#), para 7

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 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:

- 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 not longer be paid, in the eighth year the amount calculated for the second year will no longer be paid and so on).¹²

A New Homes Bonus calculator (and instructions) can be found on the [DCLG 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 be 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.

¹² *Ibid* paras 26-28

1.3 Allocations

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 New Homes Bonus is a powerful, simple and transparent incentive for housing growth. It is a key part of the housing growth focus of our national housing strategy, which we published on 21 November 2011. Commenced in April 2011, the Bonus is based on the council tax of additional homes and those brought back into use, with an additional amount for affordable homes, for the following six years. It ensures that those local authorities which promote and welcome growth can share in its economic benefits, and build the communities in which people want to live and work.

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 installment of £199 million in respect of year 1 and £232 million for housing growth in year 2.

We are committed to ensuring that the Bonus remains a flexible, non-ringfenced fund, for local communities to spend as they see fit - from reinvesting it in housing or infrastructure, support local services or local facilities, or using the funds to keep council tax down. Local authorities are best placed to understand the barriers to growth in their areas, the needs of their local communities and lead a mature debate about the benefits that growth can bring. There are already good examples of local authorities using the Bonus in a variety of ways. For example Wychavon are returning up to 40% to the community where growth is taking place. Liverpool are reinvesting in a commitment to deliver 2,000 new homes. The Vale of White Horse are investing in business growth by making the car parks free in the three local market towns of Abingdon, Wantage and Faringdon.

The New Homes Bonus is a key part of our ambition, set out in the Local Growth White Paper, to create a fairer and more balanced economy through encouraging growth. It will sit alongside the Government's proposals to allow local authorities to benefit from economic growth by the local retention of business rates. Our reformed Community Infrastructure Levy allows local authorities to ensure development contributes to the infrastructure needed to support growth and will give people a real say in spending to deal with the impacts of growth on their neighbourhoods.

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. A copy of the Bulletin is also in the Library.¹³

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 provisional allocations for 2014 to 2015 were published in December 2013. It is expected that £916 million will be allocated to authorities bringing total allocations up to £2.2bn over the 4 years between 2011 and 2015 of which £1 billion is additional grant provided by DCLG.¹⁴ A Written Statement set out the number of homes for which the bonus is being paid:

The increase for 2014-15 will be paid in respect of 133,000 homes and 37,000 long-term empty properties brought back into use. The affordable homes premium is £15 million in respect of 42,830 new affordable homes.

These allocations bring the total amount of funding awarded under the new homes bonus since it began in April 2011 to over £2.2 billion. This total recognises delivery of almost 550,000 homes, over 93,000 long-term empty properties brought back into use and provision of over 160,000 affordable homes, in that period. This also reflects the success of this Government's comprehensive programme to get empty homes back into productive use.¹⁵

A **deposited paper**¹⁶ on estimated bonus allocations up to 2018-19 was placed in the House in response to this parliamentary question:

Mr Raynsford: To ask the Secretary of State for Communities and Local Government pursuant to the answer of 20 December 2012, *Official Report*, column 880W, on Housing: Finance, how much expenditure is committed to be paid to each housing authority in England over the next six years as a consequence of allocations of New Homes Bonus made to date.

Mr Prisk[*holding answer 10 January 2013*]: A table setting out this information, which is based on provisional data and is subject to consultation, has been placed in the Library of the House.

A total of £3.3 billion is committed to local authorities in New Homes Bonus grant over the next six years (from 2013-14 to 2018-19), to reward councils for homes that have already been built. This includes £228 million in affordable homes premium.¹⁷

Helen Jones has probed the extent of top-slicing local government funding to cover New Homes Bonus allocations:

Helen Jones: To ask the Secretary of State for Communities and Local Government (1) how much has been top-sliced from local government funding in each region of the

¹³ HC Deb 1 December 2011 c67WS

¹⁴ DCLG, [Increasing the number of available homes](#), December 2013

¹⁵ HC Deb 16 December 2013 c70WS

¹⁶ DEP 2013-0103

¹⁷ HC Deb 17 January 2013 c906W

UK to fund the new homes bonus in each year since the scheme began; and how much has been returned to local authorities in each region of the UK in new homes bonus payments each year;

(2) how much was top-sliced from the funding given to each local authority to fund the new homes bonus in each year since its introduction; and how much each local authority received through the new homes bonus in each such year.

Mr Prisk[*holding answer 22 April 2013*]: The full amount of the new homes bonus for 2011-12 was met from Department for Communities and Local Government funding, with no local government top-slice. For each of the years 2012-13, 2013-14 and 2014-15, £250 million was allocated to the new homes bonus from Department for Communities and Local Government funding. Funding beyond these levels comes from Formula Grant.

In 2012-13, £176 million was transferred from Formula Grant to fund the new homes bonus. In 2013-14, £418 million is being transferred. This funding is transferred prior to the calculation of formula funding. The amount of grant that has been top-sliced at an authority or regional level is therefore not available. The Local Government Finance settlement does not operate on a regional basis.

Allocations of new homes bonus by local authority have been placed in the Library of the House at the time of announcing final allocations in each year. This Department no longer publishes statistics at a regional level, I refer the hon. Member of 18 September 2012, *Official Column*, columns 32-33WS. The new homes bonus does not operate on a regional basis.¹⁸

1.4 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 Grant: this will fund the full cost in year 1 and a falling proportion across years 2-4.¹⁹

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:

¹⁸ HC Deb 24 April 2013 986-7W

¹⁹ [The New Homes Bonus](#) consultation paper, p48

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.²⁰

1.5 Responses to the consultation process

Communities and Local Government published a [Summary of Responses to the New Homes Bonus Consultation paper](#) in February 2011. Some of the key issues raised in responses, together with the Government's response, are summarised below.

Linking the level of grant to the national average of the council tax band: There was support for use of the national average as the basis of the grant level to ensure that local authorities are not penalised for maintaining low council tax levels. Some respondents were concerned that this would encourage the development of large "executive type" homes at the expense of social rented homes and affordable housing. The National Housing Federation expressed reservations in respect of this – reportedly saying that it would encourage development of larger homes in the affluent south at the expense of affordable housing in the north.²¹ The Government rejected this assertion:

The Department is not persuaded that the scheme will encourage the building of an excessive number of 'executive' homes. Whilst the grant awarded for one of these homes is greater than for a smaller house, the extra space required for the larger homes means that it does not automatically follow that using a larger area of land to build 'executive' houses will secure the highest levels of grant. Furthermore, it will remain the responsibility of local authorities to ensure that their strategic plans reflect the housing needs of its communities and the dynamics of the local market will drive what is viable to build.

Using the national council tax average rather than the council tax of the individual local authority or a local average as the basis for the grant was proposed in the interests of fairness. It would ensure that the scheme does not introduce a perverse incentive to local authorities to increase their council tax in order to maximise their income from the New Homes Bonus. It would also ensure that those authorities with higher council tax levels are not unfairly favoured at the expense of those prudent authorities which had kept their council tax levels lower.²²

The issue of impact on affluent versus less affluent areas was also raised in the context of the scheme's potential effect on groups with protected characteristics and in areas requiring regeneration work:

Others argued that the scheme would disproportionately benefit affluent areas with greater scope for growth at the expense of less affluent areas that tend to have a higher concentration of elderly, disabled and black and minority ethnic residents.²³

A significant number of respondents raised concerns that the scheme will primarily benefit affluent areas. In particular, respondents were concerned that taking demolitions into account in the calculation of net additions would discourage local authorities from undertaking regeneration schemes in disadvantaged areas where stock is not fit for purpose and where its replacement is part of the growth strategy agenda.

²⁰ HC Deb 11 February 2011 cc470-1W

²¹ *Observer*, "Poor to suffer in council's new housing bonus, 27 March 2011

²² CLG, [Summary of Responses to the New Homes Bonus Consultation paper](#), February 2011, pp7-8

²³ *Ibid* p23

Some authorities expressed concern that the top slicing of Formula Grant would compound this by having a disproportionate affect on these areas, and would serve to redistribute funding from less affluent areas to more affluent areas.²⁴

For an analysis of which authorities received NHB funding in 2011/12 and the impact on Formula Grant see Library note [SN/SG/5954](#).

The Government responded:

...the scheme will not penalise authorities for demolishing homes which are already long-term empty – encouraging authorities to press ahead with renewal programmes already underway. The inclusion of empty homes will not only meet DCLG's policy aim, but will also ensure that regeneration areas can also see some benefit.

The Government has set aside almost £1bn over the spending review period to kick start the scheme and will fully fund it in years one and two. This means that no authority will lose any further Formula Grant for the next two years. The funding for year three onwards will be determined before the next settlement so local authorities will continue to use the Local Government Settlement for budgeting purposes.

The Bonus will also be unringfenced, providing a significant, flexible resource which can support communities in improving their places – whether supporting town centre regeneration, improving connections or supporting new or existing services.

Overall, the Government believes that the drivers of deprivation and social exclusion are extremely place-specific. The challenges are therefore best understood and addressed locally. That the new package of freedoms, flexibilities and incentives for local Government, the new approach to neighbourhood planning, and more flexible local budgets will strengthen local leadership, sweeping away the barriers that have been stifling growth and local innovation and holding back regeneration.

To support this Government has already announced the provision of a £1.4bn Regional Growth Fund, as well as £1.3bn to meet existing Regional Development Agency and Homes and Communities Agency commitments.²⁵

Level of affordable homes enhancement: Some respondents called for an increase on the £350 proposed to “overcome local opposition” and cover the additional costs of developing affordable housing. Some argued that the enhancement should be higher in London and the south east. The Government concluded that £350:

...struck 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.²⁶

Tier split: Of the respondents who answered this question, a significant majority were opposed to the proposal to allocate 80 per cent of the payment of the New Homes Bonus to the lower tier authority and 20 per cent to the upper tier authority. Lower tier authorities argued for the incentive to stay with the bodies responsible for planning permission while county council argued that their role in providing additional services, infrastructure and strategic planning was insufficiently recognised. In response, the Government said that “as a starting point for negotiation an 80:20 split does strike the right balance between targeting the resources at the authority responsible for planning decisions and closest to

²⁴ *Ibid* p26

²⁵ *ibid*

²⁶ *Ibid* p10

communities, whilst at the same time ensuring that the upper tier authorities' responsibilities for some services and infrastructure is recognised." Authorities are able to pool their funding where they consider it appropriate.²⁷

The bonus as a material consideration: A concern was raised that the financial benefit of a development under the New Homes Bonus could not be a material consideration in local authority decisions on planning. The Government responded thus:

...it 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.

However, this is not to say that the New Homes Bonus will always be irrelevant to decisions on planning applications. In some cases it could lawfully be taken into account as a material consideration where there is a direct connection between the intended use of the Bonus and the proposed development – but this will vary according to the circumstances of the case. An example of this could be paying for the widening of a road to allow for the extra traffic the new development would bring or to provide for substitute open space that is lost as a result of a housing development.²⁸

1.6 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.²⁹

London Councils described the decision to pool £70m of New Homes Bonus in London from 2015 as “outrageous.”³⁰

2 General comment

In terms of reaction to the August 2010 announcement, 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'.

²⁷ *Ibid* pp14-15

²⁸ *Ibid* p28

²⁹ [2013 Autumn Statement](#), para 1.230

³⁰ London Councils, [“Outrageous £70m cut must be reversed,”](#) 9 December 2013

"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."³¹

Shelter welcomed the August announcement but warned that the bonus on its own would not secure an adequate supply of new housing.³²

In their [UK Housing Review June 2010 Briefing Paper](#), Hal Pawson and Steve Wilcox commented on the Conservative's manifesto proposal to provide financial incentives for local authorities to develop:

The critical question is whether the incentives to be provided will be sufficient to promote an adequate level of new planning permissions in the face of often vocal local opposition. Proponents can point to the effectiveness of the Swiss planning system; but their devolution of planning is fully matched by devolution of local taxation with the whole of the additional tax revenues from new developments accruing to the local 'canton'. And in Switzerland the canton sets both income and property tax rates, and their local tax rates account for two-thirds of total national taxation. In contrast, in the UK, council tax and business rates comprise just 10% of total national taxation. Compared with the Swiss example the suggested financial incentives for councils to support development in England are very modest.³³

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 Government's planning reforms. They went on:

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.³⁴

Former Labour Housing Ministers, Nick Raynsford and John Healey, criticised the scheme during the Labour Party's 2010 Annual Conference:

Former housing minister Nick Raynsford has warned that the coalition Government's proposed financial bonus for councils that allow house building to go ahead in their areas could fail to incentivise regeneration schemes.

Speaking last night at a fringe meeting at the Labour Party conference organised by the Labour Housing Group, Greenwich & Woolwich MP Raynsford warned that the coalition's proposed New Homes Bonus scheme would be "extremely difficult" to implement.

...Speaking at Labour's annual gathering in Manchester, Raynsford said that Shapps had yet to make clear whether the bonus would be calculated according to the net overall addition of new homes, or whether it would apply to gross additions.

³¹ ["Councils in England offered new homes bonus"](#), BBC News, 9 August 2010

³² [Shelter Response](#)

³³ p 10

³⁴ June 2011 UK Housing Review Briefing Paper, p9

"If it's on gross, it's going to be much more expensive," he said. "They haven't dared to come clean on this." Raynsford added: "If you think about regeneration areas, where it may take many years for any net addition to the housing stock, you can see just how uncertain the proposed subsidy is going to be."³⁵

The coalition Government's proposed scheme to financially reward councils that allow housebuilding to go ahead in their areas will cause 'council tax chaos', shadow housing minister John Healey warned today.

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.

Healey claimed that some councils would have to build many more homes in their areas to recoup through the New Homes Bonus the funding cut from their local government grant to pay for the incentive. Those councils unable to build the extra homes would need to hike their council tax to bridge the gap, according to Healey.

According to figures produced today by Healey that analyse the impact of the proposed incentive scheme, 103 town halls would lose out by an average of £2 million each, while 222 councils would gain by an average of £400,000.

Healey said his analysis takes into account data from last year on house building, government grants for councils and average council tax rates.

According to Healey's figures, Birmingham City Council would need to build 8,500 homes a year in order to avoid losing grant, while Blaby District Council would only need to give 70 homes the green light.

Healey told delegates: "Those councils that see new homes built will win, but those that won't or can't build will lose out, and lose big. This scheme robs some councils to pay others. It will cause chaos in the council tax system.

"It blows out of the water [chancellor] George Osborne's promise to freeze council tax, and add extra pressure on council tax bills for councils already facing big grant cuts in public spending. Many councils will have to hike up council tax to cover the costs. Millions will face bigger bills as a result of this scheme.

"The Government is right to want a strong incentive system for councils and communities ready to see new homes built. But this isn't it."³⁶

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:

The research commissioned by the Federation – carried out by Tetlow King Planning – found Mr Pickles's letter in May had a 'very significant impact' on reducing local authority housebuilding targets. The Federation believes the Government's decision to allow councils to ignore the regional targets has resulted directly or indirectly in plans to build 84,150 homes being dropped.

³⁵ <http://www.regen.net/news/ByDiscipline/Housing/1031001/Raynsford-warns-coalitions-new-homes-bonus/> (accessed on 7 January 2014)

³⁶ <http://www.regen.net/news/ByDiscipline/Housing/1032149/Healey-warns-chaos-homes-bonus/> (accessed on 7 January 2014)

Only 123,000 homes were built in 2009/10 – the lowest figure since 1923. But the scrapping of the housing targets could see that total fall below the 100,000 mark for the first time in almost a century. This would prove disastrous for the record 4.5 million people in England currently stuck on housing waiting lists.

Tetlow King said: “In the immediate aftermath of [Mr Pickles’s letter of 27 May] a number of authorities announced that they would be reducing their housing targets or suspending work on core [housing] strategies. A number also delayed the determination of large strategic housing developments.”

They added: “Some authorities had already been planning for lower targets before Eric Pickles’s letter was released...Some had been influenced by Caroline Spelman’s letter, sent in August 2009, advising local authorities of a potential Conservative Government’s intention to abolish regional housing targets and not to progress controversial housing targets.”³⁷

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:

Leeds City Council is revealed as the biggest potential loser. In recent months, and since the Government outlined the new planning system, it has scrapped plans for over 30,000 new homes. Continuing to build at its current rate of 1200 new homes a year - despite its population requiring over 5000 - could mean it loses out on over £27M a year in Bonus payments after 6 years. This money will instead go to other Local Authorities as the New Homes Bonus ‘top slicing’ of central Government grant is implemented.

The figures release last week for NHB 09/10 showed that;

- Tower Hamlets will get £4.28M in Bonus payments for the homes it added to its stock in 2009/10 whilst Hart in Hampshire will get nothing, having only built 10 new homes and had a net reduction in its housing stock of 39 homes.

This is despite the household projection figures showing that Hart should be building 400 new homes a year. If it did, after 6 years it would receive £3.5M a year in New Homes Bonus to spend as it wished.³⁸

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 plans³⁹

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:

³⁷ UK Housing, [Minister’s letter caused councils to axe 85,000 new homes](#), July 2010

³⁸ HBF, [Local authorities losing millions](#), 2 March 2011

³⁹ 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

...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.⁴⁰

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 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.⁴¹

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."⁴²

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.⁴³

A survey of English authorities commissioned by *Inside Housing* magazine found that of the 137 respondents 60% had paid New Home Bonus funding for 2012/13 into their General Funds.⁴⁴ 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;

⁴⁰ HBF, [Local authorities losing millions](#), 2 March 2011

⁴¹ UK Housing Review Briefing, June 2012, p7

⁴² *Public Finance Magazine*, "[Bonus that doesn't fit the bill](#)," 1 May 2012

⁴³ *Inside Housing*, "[Builders question impact of new homes bonus](#)," 28 May 2012

⁴⁴ *Inside Housing*, "[Councils hoard £142 New Homes Bonus cash](#)", 28 June 2013

- 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;
- 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.⁴⁵

3 CLG Select Committee inquiry 2010 – regional spatial strategies

The Communities and Local Government Select Committee took evidence from a variety of bodies in relation to 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 2011.⁴⁶ The Committee's conclusions in relation to the New Homes Bonus are reproduced below:

NEW HOMES BONUS: CONCLUSION

126. Alongside 'neighbourhood planning' and the 'community right to build', the new housing regime proposed by the Government rests on the success of the New Homes Bonus. Instead of local authorities being obliged to provide a number of houses allocated to them through a regional planning process, they will be incentivised financially to build them. This is a bold experiment; but not one which, on the evidence we have before us, we can have any confidence will be successful.

127. Nevertheless, the Government has, in publishing its "final scheme design" document, indicated its determination to proceed with the New Homes Bonus scheme. The final scheme is not substantially different from that which was being proposed when we took our evidence. Our witnesses' concerns about the potential effects of the operation of the scheme therefore remain valid. If the number of houses built were allowed or even encouraged to rise substantially above the target in the locally approved plan, given the uncertainties and difficulties of co-ordinating with the necessary provision of other services and infrastructure, this may lead to the creation of unsustainable communities. Further, we doubt that the Government's objective of reducing conflict in the planning system and encouraging local communities to welcome new housing is likely to be achieved as long as there is suspicion that financial considerations are influencing how much land is being allocated for housing or whether permission is being granted for new housing.

⁴⁵ Tetlow King Planning, [New Homes Bonus Research - Incentivising Growth - A New Solution?](#) December 2012

⁴⁶ HC 517, Second Report of 2010-11, March 2010

128. The final scheme design document, and the Government's response to the consultation on the New Homes Bonus, give some important indications that the Government has recognised these concerns. The final scheme design document states:

The Bonus will sit alongside the existing planning system. It is intended to help deliver the vision and objectives of the community and the spatial strategy for the area. In particular, it will be relevant to the preparation of development plans which concern housing where it assists with issues such as service provision and infrastructure delivery. However, it is not intended to encourage housing development which would otherwise be inappropriate in planning terms.[150]

129. In response to concern about whether the Bonus could be a "material consideration" in local authority decisions on planning, the Government's response to the consultation on the Bonus expands on this statement:

[...] 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.

However, this is not to say that the New Homes Bonus will always be irrelevant to decisions on planning applications. In some cases it could lawfully be taken into account as a material consideration where there is a direct connection between the intended use of the Bonus and the proposed development - but this will vary according to the circumstances of the case. An example of this could be paying for the widening of a road to allow for the extra traffic the new development would bring or to provide for substitute open space that is lost as a result of a housing development.[151]

130. It is potentially a matter of some concern that the Government should suggest that the New Homes Bonus might be used to pay for road-widening or substitute open space. Under current planning rules, such matters are dealt with by ensuring that the developer pays for them, either through section 106 agreements or as a condition of the grant of planning permission. Without such agreements or conditions, planning permission should not be granted, since without the provision of the consequential improvements the development would be unacceptable and would have to be refused. If the NHB is intended to replace such obligations on developers, serious questions arise both about the future of the system of planning obligations (section 106 agreements) and about the amount of money being provided by the NHB, which would rapidly be exhausted were that to be the case.

131. We assume that this cannot be the Government's intention. That being so, it would appear that the New Homes Bonus is intended to function as an incentive only at the development plan preparation stage, and not at the point of considering individual planning applications. If authorities were to start granting large numbers of permissions in excess of their planned number, the implication would be that they had been incentivised by the NHB to do so, which the Government's response suggests would usually be unlawful. Local authorities will only receive the Bonus once houses have actually been built, overcoming one of the problems with regional spatial strategies, which provided only for targets, not actual homes. If the Bonus functions as indicated, incentivising local authorities to provide in their development plans for the housing which their assessments of housing need indicate are required, that is very much to be welcomed.[152]

132. However, the Government has not made its intentions explicit, and has not built them into its proposals in any meaningful way. **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.

133. Similar principles should apply to the incentivisation of the building of affordable homes. Just as the Government has no evidence that the Bonus will actually result in more development, so it has no evidence that the additional payment to incentivise an affordable home will encourage the building of one type of house rather than another. While the evidence suggests that there are some local authorities that would need a considerably greater differential incentive to promote affordable housing, there are also others that are more enthusiastic about affordable homes rather than private housing, so the structure of the incentive may even be misjudged. The NHB scheme, being demand-based rather than needs-based, is particularly likely to fail in the affordable housing sector, where need rather than demand is the defining feature. **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 findings](#) was published in June 2011 – the relevant extract on the New Homes Bonus is 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. (Paragraph 132)

45 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.

46 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.

47 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.

48 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.

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

50 We agree that the New Homes Bonus scheme needs to ensure that a variety of homes are built according to local need. In recent years too many flats have been built and the final scheme was intentionally designed to provide a greater incentive to build the types of homes people need in the places they want them. We recommend that the Government redesign the New Homes Bonus so that it better rewards the meeting of demonstrable need for affordable housing. (Paragraph 133)

51 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.

52 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 2011.⁴⁷

4 Adjournment debate March 2011

George Hollingbery secured a Westminster Hall debate on the New Homes Bonus on 15 March 2011. The content of this debate can be accessed online [here](#).

5 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 houses⁴⁸ while others argued for a change in its distribution and for "recalibration."⁴⁹ The Committee's final report did not contain specific recommendations in relation to the bonus.

6 National Audit Office Report March 2013

The NAO's report on the [New Homes Bonus](#)⁵⁰ 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."

⁴⁷ [CM 8103](#), June 2011

⁴⁸ HC1652, [Eleventh Report](#) of 2010-12, April 2012, Ev 38 & 39 – see also [volume II](#) containing additional written evidence.

⁴⁹ HC1652, [Eleventh Report](#) of 2010-12, April 2012, Ev 130 - see also [volume II](#) containing additional written evidence.

⁵⁰ [HC 1047](#) of Session 2012-13

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.⁵¹

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).⁵²

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 2013.⁵³

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."⁵⁴ Evidence indicated that it had "mainly rewarded home creation that was not incentivised by the Bonus."⁵⁵ The NAO did find evidence that the Bonus had given authorities resources to protect activities around tackling empty dwellings.⁵⁶

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.

⁵¹ *Ibid* para 11

⁵² *Ibid* para 12

⁵³ *Ibid* para 14

⁵⁴ *Ibid* para 15

⁵⁵ *Ibid* para 16

⁵⁶ *Ibid* para 18

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.⁵⁷

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.⁵⁸

7 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.⁵⁹

The PAC called for an urgent evaluation of the scheme. Sir Bob Kerslake, 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.⁶⁰

⁵⁷ *Ibid* paras 20 & 21

⁵⁸ *Ibid* para 24

⁵⁹ HC 114, Twenty-ninth report of 2013-14, [The New Homes Bonus](#), October 2013

⁶⁰ [DCLG Press Release](#), 31 October 2013