

Response by asocialdemocraticfuture to the local government finance settlement 2018 to 2019: technical consultation

With particular reference to Questions 2 and 5,
pertaining to the New Homes Bonus

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asocialdemocraticfuture went live in September 2009 with the professed aim to offer a forum for those, regardless of party affiliation or of none, who want to contribute to a new politics, marked by social democratic values guiding strategic policy development, rather than tactical interventions geared to the short-term control of news agenda. It noted that the latter defined the political methodology of New Labour under Tony Blair and Gordon Brown, and that its application risked it becoming the death knell of Labour as a creative political force.

The contours of British politics have, however, changed beyond recognition in the tumultuous times that have since passed. Most recently, the June 2017 election of a hung parliament left Jeremy Corbyn within striking distance of 10 Downing Street.

The core guiding values of *asocialdemocraticfuture* remain unchanged, however. Policy development and choices should be driven by, and assessed against, the primary social democratic yardstick: expanding the lifetime opportunities for low and middle-income households, particularly the poor and disadvantaged.

Sustainable and efficient economic growth, balanced in its distributional composition, is a vital, but not sufficient, condition for securing progress against that yardstick. Strategic and sustainable policy development, rather than populist gestures, is also necessary.

Social democratic progress, certainly, cannot simply wait for, or rely upon, the re-election of Labour government. Single, or even two, term governments, can change the political parameters of feasible action on a sustainable basis, and so bequeath a sustainable policy legacy to posterity, but only if its successors are prepared to continue along similar strategic tramlines.

The development of an overlapping and sustainable technical and political consensus, one that often can be implicit, that can further social democratic advance and the national interest in effect in terms of values and across key policy areas is also essential.

The focus of *asocialdemocraticfuture*, is on a future set by such realities. Its prime purpose is to contribute to the identification and development of policy consistent with strategic social democratic tramlines. A balanced employment-creating economy refocused towards production rather than consumption, the reduction of inequalities in income, wealth, and opportunity, the provision of universal core public services at high quality and at sustainable cost, the development of a housing system that contributes to sustainable growth rather than boom-bust, and which actually delivers affordable housing to the young and those of moderate means, not windfall gains to the established: all these central and related core social democratic ends need to be integrated within feasible overarching policy frameworks.

In that light, an overarching high-level strategic reform framework linking the wider economy and the housing system is set out in **wider housing ends, including a 2017 housing policy series**, which this paper will contribute to. It is hoped that the refreshed website will be go live in November 2017.

The New Homes Bonus (NHB) was included in the 2010 conservative party manifesto. It was then introduced by the 2010-15 coalition government. NHB has been payable since April 2011 for every home added to the council tax register within each LPA. Newly built, converted, or, an empty homes returned to use are eligible for payment.

The declared objective of the NHB was to provide a financial incentive for LPA's in England to expand new housing supply within their areas.

The amount of NHB paid to each authority is the national average for the council tax band that is applicable to each additional eligible addition, multiplied by the total of such eligible additions for that year for each band to provide a gross total. Recent demolitions and conversions that reduce the number of homes are then deducted to produce a net total additions total. Each authority receives its annual NHB grant allocation in April, reflecting its total eligibility for NHB for the preceding October to October period, with final funding decisions on allocations taken in November of each year..

An extra flat rate of £350 per year from 2012-13 has been payable for each affordable home added. NHB receipts, however, are not ring-fenced for housing purpose: they can be used in support of any permissible purpose, including the funding of affordable housing, and/or be used to reduce council tax bills locally.

Payments can be made to an upper tier (county council) or a lower tier (district authority), or to a combined authority. Across two tier areas, 80% of payments go to the shire district, with the county receiving the remaining 20%. In London, the entire NHB payment goes to the individual borough in which the home is built.

Total NHB allocations increased from £200m in 2011/12, to £913m in 2014/15, and to an expected £1.23bn in 2017-18. An estimated total of c£6bn was spent by the end of 2016. That rising payments curve is the product of annualised payments per home accumulating each year combining with a new batch of annual additions, with that latest batch adding further to the annualised payment stream to be paid the following year.

The NHB grant allocation paid to LPA's was funded entirely by central government in 2011-12, but each subsequent year since, the sponsoring department, the Department of Local Government and Communities (DCLG), has top-sliced the annual cost of NHB in excess of £250m from its main funding grant for local government.

Given that funding process the creation of net losers and gainers was inevitable: the latter receive more in NHB than they lose in funding grant support as a result of top-slicing.

Although a 2014 DCLG evaluation of the scheme's operation advised that, overall, in percentage terms, negative impacts were less marked than positive impacts, As time progresses the rising NHB payments curve combined with the redistribution of central grant support, will lead to more authorities becoming worse off. The size of

both positive and negative impacts will also increase.

Up to 2016 shire districts were the highest net beneficiaries; shire counties and metropolitan districts tended to be net losers. A broad belt of authorities around London and the wider south east benefited the most; authorities in the north of England, Yorkshire and the Humber are more likely to be net losers. London LPA's have reported both some of the highest positive and negative impacts.

Since 2011 local councils have suffered particularly sharp reductions in the general funding support that they receive from central government. This has imposed particular pressures on the delivery of front-line services, with youth and adult social care provision suffering particularly.

The suspicion lingers that the NHB was introduced for the government of the day to demonstrate that it was 'doing something' to expand housing supply, but in such a way that scarce resources were likely to be skewed if not precisely, but broadly in favour of authorities of the same political colour. If so, it would not be the first time that local authority grant redistribution mechanism would have been distorted in that manner, of course¹.

Reducing the deadweight inefficiency of the NHB

Paragraph 3.1.1 of this consultation states that the NHB 'has been successful in encouraging local authorities to promote local housing growth'. There is little or no evidence to support that assertion.

A DCLG 2014 evaluation did not find evidence that the NHB, including the £350 affordable addition, actually provided an additional incentive at the local level to specifically provide for more affordable homes². That conclusion accorded with an earlier 2013 National Audit Office (NAO) initial evaluation of the design of the NHB programme and its anticipated impact on policy outcomes.

The NAO estimated back then – providing the base of the DCLG's own projections - that only c108,000 additional homes would at best be provided as a direct result of NHB over a ten year horizon, noting that even if realised, only a small dent in the housing supply gap would be made. It further highlighted the relative small weighted payment of £350 in favour of additional affordable housing³.

The NAO cautioned that the additional revenue resources could be channelled onwards authorities proceeding with speculative housing developments that, in any

¹ Back in 2014, the Financial Times reported that London, the Southeast, Southwest and East Anglia have reaped £177m more than they would have done without the bonus – to the detriment of authorities in the Midlands and the North. The 50 most deprived councils had lost out on £111m while the 50 least deprived have gained £96m. It reported that the NHB rewarded Tory-held councils by £155m and Lib Dem authorities by £18m, while in effect removing £177m from Labour-held authorities. Its calculations were based on how much councils would have received if the NHB was distributed to local authorities in the same way as the general formula grant, *Flagship government housing scheme shifts cash from north*, Financial Times, 27 July, 2014.

² Ibid, DCLG 2016, p4

³ *The New Homes Bonus*, National Audit Office and DCLG, HC 1047, session 2012-13, 27 March 2013.

case, would have gone ahead, without the NHB: a deadweight effect. Such effects should always be avoided in the effective design of tax and subsidy instruments.

Insofar that the declared aim of the programme was to encourage local authorities to grant planning permissions for the building of new houses in return for additional revenue, it is surprising that during a period of fiscal austerity that the programme was not targeted more effectively with respect to its professed aim, and this danger continues.

As NHB payments are triggered only when a new home is put on the council tax register, the often prolonged gestation period between inception and completion of housing developments, meant that such deadweight effects were inevitably bound to be predominant in the early years of the programme.

The DCLG in 2017, following a 2015-16 consultation, proposed to mitigate such effects introducing a reformed payments regime, where only additions to the stock in excess of a 0.4% increase (nationally applied from an initial 2017-18 baseline) will be remunerated locally. This does appear to a case of too little, too late, however⁴. Paragraph 3.1.3 itself recognises that this level is significantly below the average growth rate in the 10 years before the introduction of the NHB.

NHB for additions that were first claimed in 2011-12 were paid every year for a six year period until 2017-18 when they were reduced to five years in response again to the 2015-16 consultation, driven by the shifting of attention to the future claim of the NHB on future public budgets⁵. In response to growing disquiet about the impact of such pressures locally, expressed by even some conservative authorities, the 2015 Spending Review indicated a preferred option of saving by reducing the payment period from six to four years. Indeed, as confirmed by this consultation, after 2018/19, the payment period - covering both existing and future allocations - is to be reduced to four years. This was projected to allow £800m from the NHB to be diverted to adult social care funding.

Given the continuing adult social care funding crisis, reflective of wider demand pressures on core public finances outstripping tax revenues, it would not be surprising if the further pressure from the HM treasury to further trim NHB, or for it to wither on the vine, in order to create further fiscal space to re-direct central funding support towards that sector, was encountered.

Increasing the supply of affordable housing, however, is also central to the achievement of macro-economic and social policy objectives, as the Communities Secretary of State has reiterated in a number of recent policy announcements.

In that light, current and future resources expended by NHB should be used to more

⁴ Lichfields, a planning and development consultancy, in their planning blog noted between 2011 and 2015, national housing stock growth was between 0.54% and 0.73%, suggesting that the new baseline will still not adequately address the deadweight weight, notwithstanding the difficulties of overcoming it in practice, lichfields.uk/blog/2017/january/17/new-homes-bonus-a-missed-opportunity.

⁵ Para 29, *New Homes Bonus: Sharpening the Incentive Government Response to the Consultation*, DCG, December 2016.

effectively with respect to its professed objective of incentivising additional new housing net supply at the local level, rather than simply robbing peter to pay paul.

Targeting measures along the lines suggested below could act as a more effective and focused policy carrot to incentivise local authorities and developers to commence and progress locally affordable new housing developments in accordance with the wider objectives of the 2017 Housing White Paper.

This could have been done by linking the payment of NHB conditional to actual evidence of specific local authority actions and behaviour most likely to secure actual new supply, that are wider in scope than simply linking NHB allocations to the ratio of successful appeals to residential planning decisions as set out in *paragraph 3.3.4* of this consultation. This is likely to prove a very blunt and lagged incentive.

This could be done, for example, by measuring LPA:

- progress in achieving a NPPF compliant plan;
- speed of planning approvals;
- release of public land for housing;
- bringing back into use empty homes by local authority enforcement action, etc.

More fundamentally, however, the evidence available, as outlined in this submission, strongly supports the diversion of future NHB resources to the direct financial support of the provision of additional affordable housing. This could be achieved by increasing the weighted unit NHB payment for such accommodation, or simply transferring resources to the departmental affordable housing budget.

