New Homes Bonus pooling:

The New Homes Bonus is diluted by pooling to the Single Pot

September 2013

Context

The DCLG technical consultation on how local pooling of the New Homes Bonus (NHB) can be achieved finishes on the 19th September. This paper explores what the pooling means for the bonus, the growth fund, housing and growth. Beyond this we suggest alternatives to the concept of pooling and set out the issues that are inherent in the process.

There has been much media attention over the summer regarding rising house prices and the impacts on the economy. We have previously argued[1] that high house prices whilst good for house-builders and owners, restrict both labour market mobility and availability as well as increase the size of the welfare bill (through housing benefit). It is now broadly agreed[2] that much of the problem is down to an undersupply of housing. According to a recent Shelter report[3], at current levels we will build a million fewer homes than we need every seven years. As we have set out[4], the issue is even more acute in successful cities; too few houses are being built in the areas that need them most.

The current undersupply in housing is largely due to three reasons firstly the planning system, by design, limits the amount of developable land available. Secondly the small number of volume housebuilders with developable land are acting rationally in managing the amount of houses they bring to market in order to maximise returns to their shareholders. Thirdly, until recently local authorities faced a political and financial disincentive to permit new housing in many places. The local authority responsible for granting planning permission does not benefit financially from permitting new housing (in fact it often bears extra costs) and because existing residents often only experience the negative impacts of development (e.g. reduction in their house price, congestion, disruption, an extra burden on services) they also tend to resist new development.

1. 'We Should be helping to build, not helping to buy', 28 May 2013 http://www.centreforcities.org/blog/2013/05/28/we-should-be-helping-to-build,-not-helping-to-buy/
2. http://www.yestohomes.co.uk/
3. Shelter (2013) S*olutions for the housing shortage:* http://england.shelter.org.uk/__data/assets/pdf_file/0011/689447/Solutions_for_the_housing_shortage_-_FINAL.pdf
4. Webber C & Swinney P (2010) *Private sector cities: A new geography of opportunity* London: Centre for Cities available at http://www.centreforcities.org/privatesectorcities

What is the New Homes Bonus?

The New Homes Bonus (NHB) was introduced in 2011 as a non ring-fenced payment to local authorities to correct this disincentive. The Bonus provides six years of payments equal to the average national council tax band in exchange for each new home built (or brought back to use) and is funded primarily by top slicing the existing Formula Grant.

Between April 2011, when NHB was introduced and 2014, £1.3 billion of NHB money will have been allocated. And, as the money is non ring-fenced, two thirds of local authorities have been using the NHB to continue funding mainstream services[5] in the face of cuts and the reduction of Formula Grant. House builders are also sceptical about the bonus, with 8 out of 10 reporting that there was no impact in 2012[6]. Despite this, the evidence is mixed and it is too early to accurately monitor and draw conclusions on its impacts, an issue that we will come back to.

What is being proposed?

The current technical consultation – New Homes Bonus and the Local Growth Fund: technical consultation[7] – is seeking views on how to implement its proposal to pool £400 million from the NHB to the Single Local Growth Fund. The pooling of the NHB is designed to encourage Local Enterprise Partnerships (LEPs) and local authorities to work together in delivering housing, as a key driver of local growth following the announcement of the Local Growth Fund.

Our Analysis

Centre for Cities supported the Heseltine report and the concept of the Single Local Growth Fund. However the proposal to incorporate a proportion of NHB funding into the Single Local Growth Find will fundamentally undermine both policies for the following six reasons.

1. Including £400 million of NHB money in the Single Local Growth Fund **centralises an already devolved fund.**

The NHB is a non ring-fenced payment direct to local authorities to incentivise them to accept new homes. Shifting money from a local non-ring-fenced fund to a national fund, and then re-devolving it to LEPs, goes against the principle of localism; a core element of the Coalitions agenda and central to both the NHB and the Single Local Growth Fund.

2. The pooling process **breaks the direct link between the incentive and the decision maker**.

Local authorities will lose a forecasted 35 per cent of their direct incentive to a national fund, which will then be re-devolved to the LEP to spend. Faced with a reduction of more than a third, local authorities will give much less consideration in the decision-making process to the potential financial benefits of their decisions. This is likely to result in them being less willing to allow new housing to be built, particularly in places where it is politically contentious.

There is little justification for this threshold, it appears the figure was chosen merely to ensure the Single Local Growth Fund meets a politically palatable £2 billion. The threshold shows that it is the local communities that are distanced from the incentive.

3. By dividing the bonus between the decision making local authority and the LEP, the pooling **introduces complexity and opacity to a relatively simple, transparent and predictable policy**.

Speaking on June 3rd[8], Bob Kerslake assured the public accounts committee that “The really powerful thing about the [NHB] model is that it was simple and direct and it was directly related to activity by the local authority”. Under the proposal, this simplicity will be replaced by complexity, uncertainty and confusion.

5. ‘Councils hoard £142m new homes bonus cash’ 28 June 2013 http://www.insidehousing.co.uk/development/councils-hoard-%C2%A3142m-new-homes-bonus-cash/6527511.article
6. Knight Frank ‘Housebuilding Report 2012’ May 2012 http://www.knightfrank.com
7. https://www.gov.uk/government/consultations/new-homes-bonus-and-the-local-growth-fund-technical-consultation
8. http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/uc114-i/uc11401.htm

4. The introduction of a national pooling target of £400 million will **encourage contradictory behaviour at the local level.**

The £400 million target, which seems to have been chosen to ensure the Single Local Growth Fund reached £2 billion, creates a threshold which distorts the effects of the NHB. When the national fund nears £400 million, local authorities might choose to hold out on permitting new development in anticipation of holding on to 100 per cent of the bonus when pooling is no longer required. Paradoxically, the incentive to the local authority to build will grow after a certain number of homes have already been built (and the nationally pooled threshold is met).

5. The proposal by central government to change the policy after only two years **creates considerable uncertainty for local authorities** in decision making and financial planning.

One of the key benefits of the NHB that the Public Accounts Committee identified[9], was that councils could make medium term investment decisions based on their housing development projections. After a reduction of over a third, these calculations and services are no longer likely to be viable and with the uncertainty created by policy decisions made to meet arbitrary targets; these decisions are unlikely to be risked again.

6. Changing the policy after such a short period, and just at the time when the actual effects of the policy would start to emerge **limits the possibility of undertaking any robust policy impact evaluation.**

The NHB was due to be assessed in 2014 after monitoring which would have provided a chance to improve the policy further through evidence based analysis and change. In losing 35 per cent of the local incentives just as the impacts could realistically be monitored, the bonus was fundamentally changed before it could be properly assessed.

An Alternative Approach

It is true that housing and growth should be considered together, as they are intrinsically linked. Therefore, encouraging LEPs to interact with local authorities on these strategies is important. But the reasons we set out show that the proposed approach is flawed.

A more effective way of encouraging the partners to work together on housing delivery and local growth would be to offer a **'pooling premium' to LEPs** in which authorities choose to pool some (or all) of their bonus payments. This would mean that if a local authority put £100 into the LEP growth fund, central government would add an additional premium (for example £35). This would maintain the integrity of the NHB whilst incentivising LEPs to work with local authorities to use their funds together, and link housing and growth policies.

Conclusion

There is no economic rationale for the pooling of a local fund to the LEP level as it does not improve the incentive, and uses localised money to prop up the Single Local Growth Fund. That the pooling is set to a national limit suggests the link also has little to do with the local geographies integral to both the NHB and Single Local Growth Fund. It compromises both the transparency and potency of the bonus and merely fills out the Single Pot with existing localised money. The proposal as it stands is likely to fundamentally undermine two policies which could potentially bring real power to local communities.

9. http://www.publications.parliament.uk/pa/cm201314/cmselect/cmpubacc/uc114-i/uc11401.htm

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