

CONSULTATION RESPONSE



New Homes Bonus Consultation (DCLG)

24 Dec 2010

Introduction

The Home Builders Federation (HBF) is the principal trade association representing the interests of private home builders in England and Wales. Our membership, which includes companies ranging from major national firms, through regional companies to smaller local firms, is responsible for more than 80% of the new homes built every year.

New Homes Bonus (NHB): Core Objective

The NHB is absolutely critical to the success of the new planning system.

Opinions differ as to whether the Bonus will provide a large enough incentive to persuade local planning authorities to grant sufficient residential planning permissions to meet future housing demand and need. In truth, we will only know if the Bonus is working once it has been in operation for some time.

For both these reasons – the central importance of the NHB, and legitimate uncertainty about its impact – **the Bonus must be designed to focus laser-like on maximising the incentive to local authorities to grant residential planning permissions.**

In addition, DCLG should maximise the visibility of Bonus payments to local authorities so that communities are fully aware of the financial benefits of new housing.

To this end, Ministers must resist the temptation to try to meet additional, unrelated objectives with the Bonus. Trying to achieve multiple objectives will dilute the incentive effect of the NHB, create unnecessary complexity, lead to unintended consequences and open up the Bonus to special pleading for yet more objectives.

HBF Answers to Consultation Questions

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

This proposal would seem to have considerable merit. It avoids giving a higher incentive to local authorities simply because they have a relatively high council tax rate (or alternatively offering a lower incentive to those which have kept down their council tax rate). By linking each dwelling to its appropriate council tax band, as opposed to giving a single rate for all dwellings, it avoids creating an incentive for local authorities to seek the highest possible number of small dwellings on sites simply to maximise the Bonus's value regardless of market requirements. We note also that this approach does not create an incentive to grant permission for larger homes, as some have suggested, because although the Bonus per dwelling will be larger for larger dwellings, there will be fewer such dwellings on any given area of land.

This approach will also encourage local authorities to approve housing mixes that best meet local housing demand: the more deliverable and marketable the homes on a site, the faster they will sell and the quicker the local authority will receive its NHB funds.

However this approach does mean that it will not be easy for developers to calculate the Bonus on proposed new sites, as suggested in the consultation. This is a very important practical consideration for the industry.

To arrive at an accurate estimate of the likely value of the NHB for a site, the developer will have to allocate each dwelling on a proposed development to its appropriate council tax band **based on 1991 values**. While developers will know the **current price** of each unit, we have yet to find a simple way to link these to 1991 values. The VOA advises that there is no simple formula to link the two.

In time, once a housing scheme has been granted planning permission and the developer begins selling the homes, the council tax band and payment for each dwelling will be obtained from the local authority. However this would not normally be done at the pre-planning, pre-construction stage. Yet it is precisely at this early, pre-planning stage that developers need an estimate of the NHB in order to persuade the local community and local authority of the benefits of a proposed scheme.

We are discussing this problem with officials from DCLG and the VOA.

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

There is a strongly held view within the home building industry that Affordable Housing should not receive any additional NHB. The Bonus for Affordable Housing should be calculated in just the same way as it is for open-market dwellings.

The objective of the NHB is to encourage local planning authorities to grant residential planning permissions in order to expand the housing stock. As argued at the beginning of our submission, the Bonus should have a laser-like focus on meeting this core objective. To this end, we believe the Bonus should be tenure blind. It should not try to achieve the additional objective of promoting the supply of Affordable Housing.

Giving an Affordable Housing enhancement to the Bonus will distort the decisions of local authorities about the mix of affordable and market housing on sites simply because Affordable Housing will generate a higher Bonus. Decisions about the tenure mix of housing on a site should be based solely on assessments of local market demand and housing need, and not artificially distorted by an arbitrary differential in the Bonus treatment of one particular type of housing provision.

S106 planning obligations requirements already introduce a very substantial “incentive”, in that Affordable Housing units are sold to social housing providers at a large discount to the open market value, and therefore involve a sizeable land value subsidy. We do not believe the Bonus should be used to introduce a further distortion.

A higher Bonus for Affordable Housing will also tend to encourage local authorities to demand unviable levels of Affordable Housing at a time when viabilities are already seriously stretched by the cumulative cost burden of policy and regulation.

We noted at the beginning of our submission that adding multiple objectives to a policy instrument tends to add complexity and lead to unintended consequences. The suggestion of an enhancement to the NHB for Affordable Housing amply demonstrates this point. Because of measurement difficulties, DCLG has suggested the Affordable Housing enhancement should be based on gross numbers. This goes completely against the primary objective of the Bonus which is to incentivise expansion of the housing stock by being based on net additions. Not only will demolitions of Affordable Housing be ignored, but using gross numbers will also mean that second-hand dwellings purchased by an RSL for Affordable Housing will generate a £350 Bonus for the local authority, even though such purchases do not add to the housing stock.

As stated above, the Bonus must focus laser-like on its core objective: to incentivise local authorities to increase the housing stock.

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

If there is to be an enhanced Bonus for Affordable Housing, the definition should be in line with the definition in PPS3.

However we have made separate representations to DCLG that the definition of Affordable Housing needs to be revised so as to encourage private sector, non-grant provision.

If there is to be an enhanced Bonus for Affordable Housing, DCLG should also consider offering an enhanced Bonus for special needs housing, such as retirement housing. Not only does retirement housing meet a growing need, but it frees up larger, under-occupied family homes, creating an obvious parallel with the proposal to pay a Bonus for empty homes brought back into use.

We do not have a view on the issue of Gypsy and Traveller sites.

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

Although strictly speaking this does not add net additions to the stock, we give qualified support to this proposal. As the consultation states, it is more difficult to argue for new housing when there are known to be large numbers of empty, but potentially habitable dwellings in the existing stock.

However this proposal once again highlights how extending the Bonus to an additional objective (i.e. beyond incentivising net additions to the stock) creates complexity and unintended consequences.

As the Bonus is an incentive, it should only be paid when there has been action taken by a local authority: whether granting a residential planning permission, or directly intervening to bring an empty property back into use.

In the case of empty homes, we are concerned that Bonus money will be paid to local authorities when they have not played any role in bringing empty properties back into use

For example, a private owner may leave a property empty for 6 months - while overseas, while the dwelling is being refurbished, following a death and a prolonged probate period - then bring it back into occupation without any involvement by the local authority. Or an RSL might purchase a derelict property, refurbish it and bring it back into occupation without any local authority involvement. The consultation seems to suggest the council would receive a Bonus in such circumstances simply because a dwelling had been vacant for 6 months and then brought back into occupation, even though it had not played any role in bringing the property back into occupation.

We suggest DCLG should examine whether tighter criteria could apply. For example, a Bonus would only be paid when a property had been vacant for more than, say, 2 years and when the local authority had played an active role in bringing the property back into occupation. Otherwise no Bonus would be paid.

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

We do not agree there should be a split.

To ensure the Bonus has maximum incentive effect, 100% of the Bonus should go to the authority granting the planning permission. To siphon off part of the Bonus to the upper tier would dilute the Bonus's incentive impact on the planning authority, as is already evident from developers' discussions with local authorities.

In addition, a split suggests the Bonus is not a Bonus, but is in fact a contribution towards infrastructure. It is not. Infrastructure is funded from council tax revenues, most of which go to the county when there is an upper tier, formula grant, S106 contributions and the CIL.

Once again, this proposition demonstrates how an attempt to meet an additional objective creates problems. Any split, whether 80/20 or any other, is entirely arbitrary precisely because there is no logic or justification for such a split. The upper tier authority does not have any responsibility for granting planning permission, and therefore should not receive any form of "incentive".

It should be up to the local planning authority's discretion to decide whether some of the Bonus should be transferred to an upper tier authority, an LEP, or indeed to a lower tier such as a parish council or the local community in which the new homes are located.

If there is to be a mandatory split, such as 80/20, then there is a rather more persuasive argument in favour of a mandatory contribution to a lower tier (e.g. a parish council or local community), whether in the form of 80/15/5, or possibly 95/5, because it is local communities, not upper tier authorities, which need incentivising to accept new housing.

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

As noted above, we believe in all cases 100% should go to the authority responsible for granting planning permission. Any contributions from the NHB to upper or lower tier bodies should be at the local planning authority's discretion.

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

We do not have a view on this question which is a matter for local authorities.

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

We agree this would seem a sensible basis, subject to the views of local authorities.

However we believe the Bonus should be paid to the local authority in a single lump sum at the beginning of the financial year to maximise its visibility and incentive effect. If, by contrast, the Bonus is paid out in a series of fortnightly or monthly amounts along with formula grant, it will have no visibility and its incentive effect will tend to be diluted.

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

Building on our comments in response to Question 7, to maximise the Bonus's visibility and its incentive impact we believe the Government should make a separate Bonus announcement, possibly at a slightly different time to the announcement of the formula grant settlement. DCLG should publish a single table of all local authorities showing each

authority's Bonus payment for the following year. This would allow home builders to make comparisons (absolute, per capita, against comparable economic growth areas, etc.) so as to increase pressure on local authorities which have unjustifiably low Bonus payments.

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

See our response to Question 3 above. We do not believe there should be an additional Bonus payment for Affordable Housing.

10. How significant are demolitions? Is there a proportionate method of collecting demolitions data at local authority level?

We do not have a view on this question.

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

We do not have a view on this question.

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

Our concern is with the operation of the Bonus in practice.

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

Net Additions

While we understand the logic and practical administrative advantage of basing Bonus payments on net additions to the housing stock, many home builders believe payment should be based on new housing completions only. The Bonus is, after all, an incentive to grant planning permissions.

As a point of clarification, we assume a local authority recording negative net additions between one year and the next would not be penalised. This could happen in a regeneration area where a substantial demolition programme in one year could be followed by the beginning of a new build programme the following year.

One obvious consequence of using net additions is that regeneration areas with substantial demolition programmes will tend to receive reduced Bonus payments. The answer, however, is to ensure alternative sources of regeneration funding are available to local authorities. Indeed it could be argued that there is much less need for a Bonus-type incentive to encourage development in such areas because there will often already be a strong commitment from the local authority and local community. The real problem is that such projects will often not be viable, so that regeneration and gap funding will be required.

There is also concern within the industry that local authorities will receive Bonus payments regardless of whether housing completions are rising or falling year-on-year. DCLG should give consideration to offering some form of enhanced Bonus payment to local authorities recording an increased in net additions between one year and the next.

New Build and Appeals

Concern has been expressed that a local authority would be rewarded with Bonus payments even when it had refused permission for a residential scheme which had subsequently been granted permission on appeal. There must be a worry that local authorities may refuse a scheme to placate local residents, in the knowledge that the scheme is likely to be approved on appeal and the local authority qualify for Bonus payments in due course.

Will it work? Monitoring the New Homes Bonus

Because the lead-in times for housing development are usually measured in years, we would strongly urge DCLG to put in place an immediate research programme to monitor the impact of the NHB. We cannot wait five or more years to find out if the NHB is (or is not) providing a sufficiently powerful incentive to drive up net additions.

The NHB is an incentive scheme. In other words, it is about modifying behaviour. Therefore it would be risky to rely solely on quantitative data (net additions, new completions, planning permissions) to assess how well the NHB is working because aggregate statistics tell us little or nothing about underlying behaviour. For example, housing permissions and completions may be going up simply because of conditions in the mortgage market and the wider economy, with the NHB having very little impact. Or conversely, the failure of permissions and completions to rise may reflect the fact that adverse conditions in the mortgage market outweigh any benefit from the NHB. The reasons underlying any quantitative changes will be almost impossible to isolate without detailed, qualitative monitoring.

We suggest DCLG should monitor a carefully selected number of local authorities of different types - e.g. high value areas with strong opposition to new housing, former growth areas, regeneration authorities, large, medium and small authorities, urban and rural authorities, built-up urban authorities surrounded by largely rural authorities, etc. These authorities should be monitored at regular intervals (e.g. six monthly or annually), including early in 2011 at the start of the Bonus, to see how the behaviour of local authorities, local communities, parish councils, developers and other bodies is responding to the NHB incentive. The impact of the NHB on different site sizes and housing types should be included in this monitoring.

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