

**Manchester City Council  
Report for Information**

**Report to:** Resources and Governance Scrutiny Committee –  
4 January 2018

**Subject:** New Homes Bonus

**Report of:** The City Treasurer

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**Summary**

To provide Members with a overview of the New Homes Bonus funding for information.

**Recommendation**

Members are asked to note the report.

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**Wards Affected**

All

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## **Introduction**

1. The New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. Up to 2018/19 inclusive, over £7 billion has been allocated to local authorities through the scheme to reward additional housing supply. Since NHB was introduced, over 1,200,000 homes have been delivered. This includes new homes, conversions and long-term empty properties being brought back into use.

## **Background**

2. The NHB is a non-ringfenced payment from the Department for Communities and Local Government (DCLG) which is paid to local authorities for every home added to their council tax register after deducting recent demolitions. The extra homes qualifying for the 'bonus' may be newly built, conversions or empty homes returned to use. The amount of NHB that each authority receives is dependent on two elements:
  - The council tax band of each additional property built, multiplied by the national average council tax level from the preceding year i.e. the 2018/19 allocations are based upon the average Band D council tax set in 2017/18 at £1,591.
  - A payment of £350 for each affordable home.
3. At the start of the scheme DCLG committed to paying an amount equivalent to the national average for that residential property's council tax band every year for six years. For example, a local authority adding a band D home to its council tax base between October 2011 and October 2012 would have expected to receive £1,444 per year (based on the national average council tax base for the preceding year) for the six years from 2013/14 to 2018/19, £8,664 in total. An extra £350 per year is paid for each home that is deemed an affordable home, and for affordable traveller pitches. This has changed from 2017/18 with a reduction in the number of years the Bonus is paid (from six years to five years in 2017/18 and then to four years from 2018/19), and the introduction of a growth target. This is explained further below.
4. In 2011/12, the funding provided by DCLG (£200m) was sufficient to fund the scheme. For future years, as the amount distributed by the scheme increased, funding required above the DCLG funded element is deducted from the quantum available for general local government funding (originally Formula Grant, and for 2013/14 onwards, Revenue Support Grant).

## **Position from 2018/19**

5. In 2018/19, and based on the most recent council tax base data available, the value of the NHB payments nationally is forecast to be £204m. Combining this with the cost of legacy payments provides an estimated total NHB payment of £946m in 2018/19. This will be funded from £900m which is topsliced from Revenue Support Grant, and an expected £46m from departmental budgets.

6. In numerous consultation responses to government the Council has outlined concerns with NHB as it is not considered a suitable incentive for housebuilding instead. It would be preferable to see the scheme abolished and funding distributed back in line with Revenue Support Grant or an alternative incentivising scheme developed in consultation with Local Authorities.
7. Two specific concerns are as follows:
- Funding - There has been a disproportionate fall in Government contribution to the NHB scheme, which ultimately passes the funding requirements to authorities through the top slice. This is at the same time that authorities are being required to implement cuts which continue to be the highest of all public services. The top slice is dependent on the relative size of the Government funding each authority receives. An Authority with a higher proportion of central grant funding such as Manchester loses a greater proportionate amount.
  - Distribution – The Bonus is distributed according to the level of housing growth and homes brought back into use, and the banding of such houses. This is measured at Band D equivalent level, however, almost 90% of Manchester’s housing stock falls between Bands A to C, which is only a proportion of Band D, and therefore the relative growth in the number of properties is less than the actual growth. This results in less funding being received via the NHB grant than if it were a flat rate per dwelling.
8. Manchester’s anticipated NHB grant for 2018/19 is £6.42m. The receipts in previous years are shown in the table below. These funds are used to support the overall budget as the majority is recycled funds that the Council would otherwise received through Revenue Support Grant.

	Yr1 (2011/ 12) £000	Yr2 (2012/ 13) £000	Yr3 (2013/ 14) £000	Yr4 (2014/ 15) £000	Yr5 (2015/ 16) £000	Yr6 (2016/ 17) £000	Yr7 (2017/ 18) £000	Yr8 (2018/ 19) £000
In-Year Grant	2,616	2,036	872	3,439	1,301	2,865	1,111	1,144
Cumulative Grant (2016/17 6 Years, 2017/18 5 Years, 2018/19 4 Years)		4,653	5,524	8,963	10,264	13,128	9,587	6,420

**Previous Consultation – Sharpening the Incentive (2015/16)**

9. In 2015/16 the Government consulted on a number of possible reforms to the bonus to ‘sharpen the incentive’ for housebuilding and also provide £800m for Adult Social Care. The outcome of the consultation was announced alongside the provisional Local Government Finance Settlement 2017/18. The Government decided to:
- reduce the number of years for which legacy payments are made from 6 years to 5 years in 2017/18 and then to 4 years from 2018/19, and

- set a national baseline for housing growth to *sharpen the incentive* for councils to deliver more new homes.
10. The Government chose to set the initial baseline in 2017/18 at 0.4%<sup>1</sup> below which the Bonus will not be paid (the consultation suggested 0.25%). The Government also retained the option of making adjustments to the baseline in 2018-19 and future years in the event of significant and unexpected housing growth.
11. At that point the Government decided not to take forward proposals linking the NHB to planning reforms in 2017/18 but confirmed that it would consider withholding part of the Bonus from those Authorities that it considered were not planning effectively for new homes from 2018/19.

### **Proposed Future Changes**

12. The 2018/19 Local Government Finance Settlement Technical Consultation Paper in September 2017 outlined proposals for further changes to the distribution of NHB which would withhold part of the Bonus from authorities not planning effectively for new homes. It suggested an approach which would link Bonus allocations to the ratio of successful appeals to residential planning decisions (major and minor) over an annual period using data collected by the Planning Inspectorate.
13. After consideration of representations made during the technical consultation, the Government has decided not to make any additional change to the baseline, below which the Bonus will not be paid, and it will remain at 0.4% for the 2018/19 allocations. The Government will retain the option to adjust the baseline in subsequent years.

### **Conclusion**

14. The final NHB allocations for 2018/19 will be published alongside the Final Local Government Finance Settlement in February 2018. The estimated receipt for Manchester is £6.4m, which has been allowed for when setting the budget. Government will consult on any further changes to the Bonus before implementation in 2019/20.
15. As part of the fairer funding review, Manchester will be making representations to Government to consider a new model for incentivising housing growth, ensuring that any successor to the New Homes Bonus is configured in a way that appropriately incentivises local areas to deliver housing growth and fully recognises the growth achieved.

### **Recommendations**

16. The recommendations appear at the front of this report.

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<sup>1</sup> The Bonus will only be paid where the net increase in residential properties exceeds this percentage when compared to the previous year.