



11th February 2011

Councils face £1.5bn hit from homes bonus

By Jamie Carpenter and Colin Marrs

Ministers could be forced to slice £1.5 billion a year from the main pot of funding for town halls to fund the coalition's New Homes Bonus scheme to encourage housebuilding, an analysis by Planning has revealed.

Under the New Homes Bonus scheme, set to begin this April, the Government will match the council tax raised on each new home built in England for six years.

The coalition has set aside dedicated funding of £946 million for the scheme over the next four years, with £196 million earmarked for 2011/12 and £250 million for each of the following three financial years. However, if the costs of the payouts exceed these allocations, the remainder will be top-sliced from local authority formula grant.

An analysis by Planning and trade body the Home Builders Federation reveals that payments are likely to exceed the £196 million allocated for the bonus in the scheme's first year, despite assurances from the Department for Communities and Local Government (DCLG) that it would be "fully funded" in 2011/12.

The projections, calculated using figures for net additions to the housing stock for the six financial years between 2004/05 and 2009/10, show that the bonus could cost £254 million in 2011/12. This means that more than £55 million would need to be sliced from formula grant - worth £23.5 billion in the current financial year - to make the payments.

In 2014/15, the final year of the next spending round, the New Homes Bonus could cost more than £1 billion, exceeding the dedicated funding earmarked for it by more than £750 million. In six years from now, the scheme could cost more than £1.5 billion annually, due to bonus payments in 2016/17 having to be paid for all homes constructed since the initiative began.

The DCLG's decision to partly pay for the bonus through top slicing formula grant will mean that councils that are either unwilling or unable to build homes face losing out on funding.

Speaking to Planning, former housing minister and Labour MP for Greenwich and Woolwich Nick Raynsford said that the New Homes Bonus would have a "huge impact" on formula grant funding. "It's going to be redistributive, but in totally unpredictable ways," he said. "The New Homes Bonus is very badly conceived and will not achieve what it is supposed to."

The analysis also reveals that around one-third of the New Homes Bonus is likely to be paid to councils in London and the South East. In the first year of the bonus, town halls in the capital could share £37.2 million of funding through the scheme, while town halls in the South East could receive £45.8 million.

But in the North East, councils are set to share only £8 million in the first year of the scheme, according to the analysis.

It also reveals that some councils are likely to receive more funding through the New Homes Bonus in 2011/12 than the amount they are set to lose in that financial year through cuts to their formula grant - simply by maintaining existing rates of housebuilding in their areas.

South Cambridgeshire stands to make £1.2 million through the bonus in 2011/12 if the net additions to its housing stock are the same as the average annual figure for the past six years. Its formula grant in 2011/12 is likely to be £1.1 million lower than in the current financial year.

Uttlesford Borough Council in Essex, meanwhile, will earn £652,000 through the bonus in 2011/12 if it keeps building homes at the same rate. However, its formula grant allocation is set to fall by just £600,000 in 2011/12.

Roger Harborough, chief planner at Uttlesford Borough Council, said: "We have run our own calculations and it seems as though the New Homes Bonus could provide us with significant new income."

But for other councils, the bonus will come nowhere near to compensating for the lost formula grant. Newcastle stands to make £410,000 through the incentive scheme in 2011/12, but is likely to lose £21.8 million of formula grant, while Hull is set to make £379,000 through the bonus, but is facing a £17 million cut to its formula grant.

Tim Collins, deputy director of external affairs at the Home Builders Federation, said: "In many rural district authorities in the South East, there is a pressing housing shortage. However, it looks as though many of these councils will be able to actually lower their housebuilding rates and end up with more in grants than they started with."

Collins warned that the situation would be reversed in areas where the housing market had failed. "You can plan as many homes as you like, but if nobody wants to build there, you are not going to benefit from the New Homes Bonus," he said.

A DCLG spokesman said that the analysis of the scheme by the Home Builders Federation and Planning had been based on the average band D council tax, "which may not be relevant for the majority of properties".

He added: "A combination of the recession and top-down targets that forced new homes on communities led to the lowest levels of housebuilding for any peacetime year since 1924. That's why the Government is introducing the New Homes Bonus."