



National Audit Office

REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL

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Department for Communities  
and Local Government

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# The New Homes Bonus

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National Audit Office

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Department for Communities and Local Government

# The New Homes Bonus

Report by the Comptroller and Auditor General

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Amyas Morse  
Comptroller and Auditor General  
National Audit Office

22 March 2013

This report examines whether the Department is meeting its objective for the Bonus to incentivise local authorities in England to encourage new homes locally.

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## Key facts

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**£1.3bn**

paid to local authorities, through the New Homes Bonus, 2011-12 to 2013-14

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**326**

local authorities in England responsible for residential planning

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**5%**

average Bonus allocation as a proportion of spending power<sup>1</sup> for district councils, 2012-13

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**£699 million** allocated in grant over three years, 2011-12 to 2013-14, to fund the Bonus

**£599 million** additional Bonus over that period, funded by a deduction from the local government Formula Grant

**232,000** estimated additional households requiring homes annually, to 2033

**115,600** homes built in 2012

**160,400** number of homes<sup>2</sup> added to the council tax base between October 2011 and October 2012 and resulting in payment of the Bonus

**14,000** the Department's midpoint estimate of the average annual number of additional homes that would be attributable to the Bonus over its first ten years of operation

**82 per cent** average local authority approval rate for major residential planning applications (ten or more homes) in 2011-12

1 Spending power is the combined total of a local authority's central government grants and council tax. The Department excluded the Bonus from its calculation of spending power in 2011-12 and 2012-13, but later decided to include it in the calculation from 2013-14 to recognise the Bonus' increasing proportion of local authority funding. The Department therefore recalculated spending power for 2012-13 to include the Bonus. Our analyses are based on the recalculated spending power for 2012-13 that includes the Bonus.

2 Includes newly built homes, conversions and long-term empty homes returned to use.

# Summary

## Shortfall in the supply of new homes

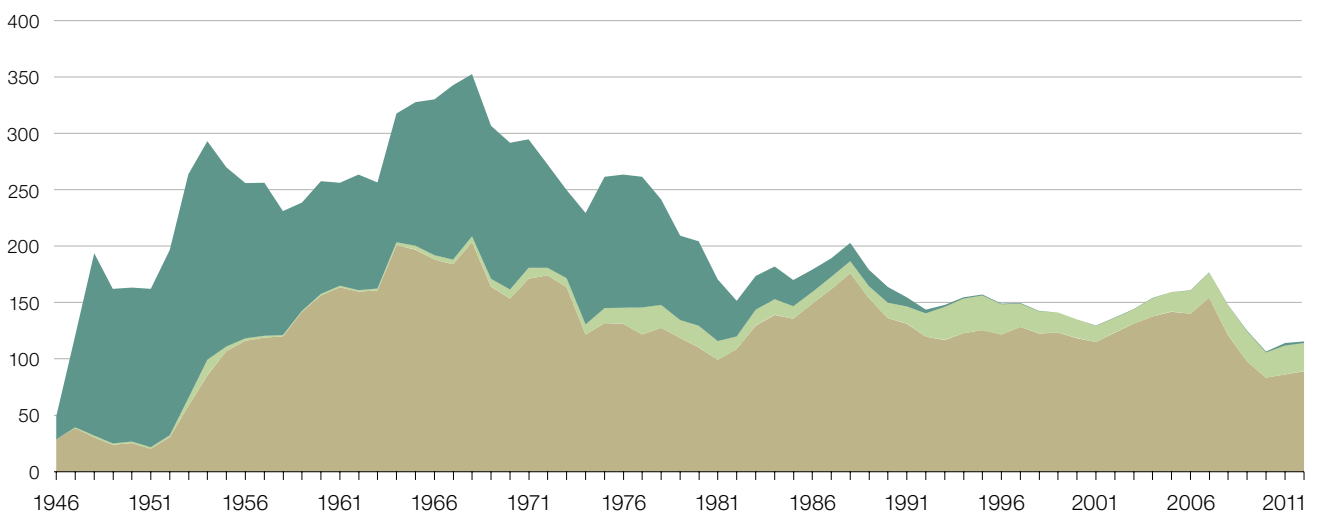
**1** The government estimates that 232,000 additional households could require homes each year to 2033. In 2012, only 115,600 new homes were built in England. Since 1970, levels of private housebuilding in England have shown no consistent growth (**Figure 1**). This is the background against which successive governments have tried to increase rates of housebuilding.

### Figure 1

Homes completed in England, 1946 to 2012

The level of private housebuilding in England has shown no consistent growth

New homes built (000)



- Local authorities
- Housing associations
- Private enterprise

#### NOTES

- 1 Data for earliest years are less reliable than for later years. Definitions may not be consistent throughout the series.
- 2 Some data missing for October 2005 to March 2007.

Source: Department for Communities and Local Government, table 244, "Permanent dwellings completed, by tenure, England, historical calendar year series"

## The New Homes Bonus

**2** The New Homes Bonus (the Bonus) is strategically important in two ways, firstly as part of the government's economic growth agenda, and secondly as one of several major changes to local authority funding (unitary authorities, district councils, county councils and London and metropolitan boroughs). New housing is often unpopular with residents who may be concerned about pressure on local services, loss of amenity, traffic congestion, and disruption during building. The government set out the rationale for the Bonus in its impact assessment, which is to incentivise local authorities to encourage new homes locally by contributing to visible benefits for local communities and countering resistance to growth in housing.

**3** The Bonus is a non-ring-fenced payment the Department for Communities and Local Government (the Department) has paid, since April 2011, 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<sup>3</sup> returned to use. For each new home, the Department pays an amount equivalent to the national average for that home'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 will receive £1,444 per 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. For areas jointly governed by district and county councils the Bonus is split, with 80 per cent paid to the district council.

**4** The Bonus is partly funded from a specific grant that replaced the Housing and Planning Delivery Grant,<sup>4</sup> which the Department last paid in 2009-10. The Department has allocated £950 million in specific grant over the scheme's first four years. Each year the rising Bonus excess is financed by redistribution from the Formula Grant, currently the main departmental funding for local government. This redistribution totalled £599 million over the first three years of the Bonus (**Figure 2**). In our report, we use the term the Formula Grant, which is ending on 31 March 2013, to refer to the current Formula Grant and its successors.

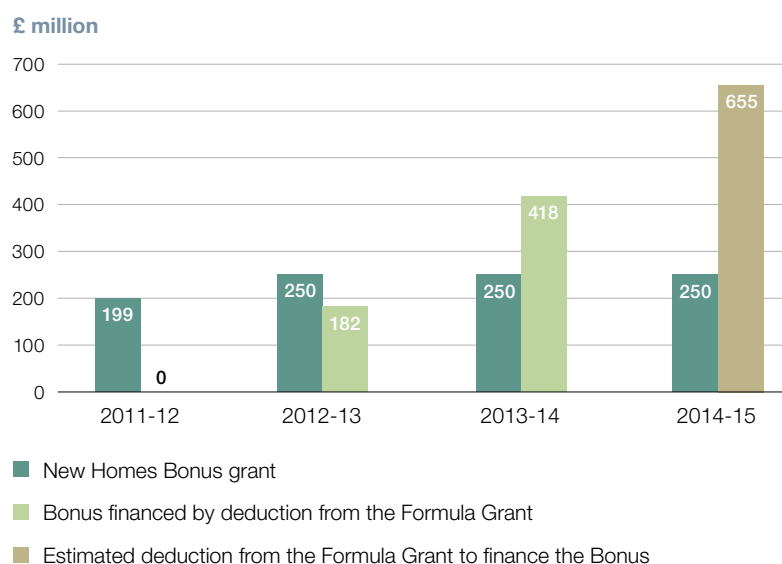
<sup>3</sup> 'Empty homes' have been unoccupied and substantially unfurnished for over six months.

<sup>4</sup> The previous government's initiative to incentivise housing growth and improve local authority planning procedures.



**Figure 2**  
Sources of New Homes Bonus funding

Each year the rising Bonus excess is financed by redistribution from the Formula Grant



**NOTE**

1 The estimated deduction from the Formula Grant to finance the Bonus in 2014-15 is obtained by rolling forward the 2013-14 allocation and was used by the Department as an illustration of spending power for 2014-15. Final allocations for 2014-15 will be based on the council tax base in October 2013.

Source: National Audit Office analysis of Department for Communities and Local Government's data on Bonus grants and allocations

## Our report

5 This report examines whether the Department is meeting its objective for the Bonus to incentivise local authorities to encourage new homes locally. It is too early for the scheme to have achieved the full impact the Department intends. We have chosen to examine the Bonus now because it is an important part of the government's effort to use funding to incentivise growth. The report does not assess local authority decisions on housing development or how local authorities spend their Bonus allocations. Appendix One sets out our assessment criteria based on the following questions:

- Is the New Homes Bonus scheme well designed to achieve its objectives?
- What is the early evidence of positive influences on new homes creation owing to the Bonus?
- Have any wider consequences been identified and are appropriate actions being taken?

**6** We have considered the Bonus in the context of wider efforts to stimulate economic growth, including housing growth, through funding incentives. This report draws on our programme of work examining issues relevant to local government, in particular, our recent report *Financial sustainability of local authorities*,<sup>5</sup> and our insights from a study we have under way on local economic growth.

### Key findings

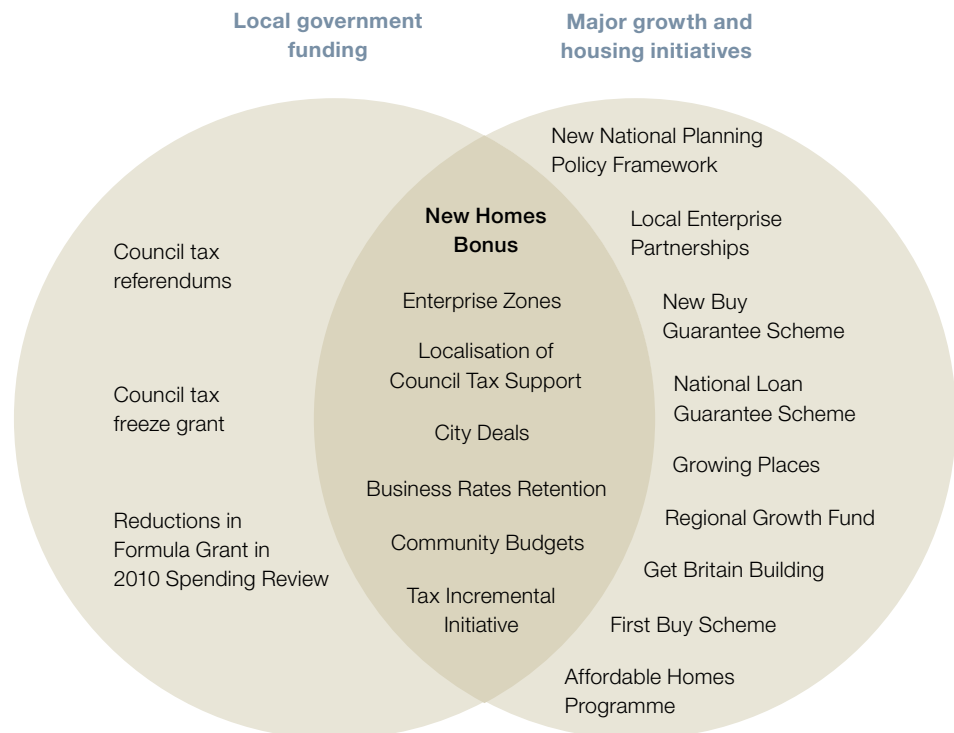
#### Design of the New Homes Bonus

**7** The Bonus’ main objective is clear: to incentivise local authorities to encourage new homes locally. The Bonus is one of several policies, many involving incentives through funding, that are designed to promote and support economic growth or growth in housing, or both (**Figure 3**) (paragraphs 1.1, 1.10 to 1.15).

**Figure 3**

Relationship between local government funding and major growth initiatives

The Bonus is among a range of policies that bring together local government funding and growth



Source: National Audit Office

5 Comptroller and Auditor General, *Department for Communities and Local Government: Financial sustainability of local authorities*, Session 2012-13, HC 888, National Audit Office, January 2013.

**8 The main design features of the Bonus – an incentive payment per home, paid as part of local authorities’ funding – were set in advance as they were key to the policy aim to incentivise and reward housing growth.** The Department consulted on other design aspects. It aligned features with wider housing objectives that were widely supported by local authorities, including a supplement for each new affordable home, and payment of the Bonus for empty homes brought back into use (paragraphs 1.1 to 1.6).

**9 To work well, incentives need to be understandable, which the Bonus is.** The simplicity of the Bonus calculation and how it is triggered makes it easy for councillors and local authority officers to understand and explain to communities. Stakeholders we consulted, and local authorities we visited, agreed that having the payment clearly relate to council tax, and the visibility of a ‘New Homes Bonus’ revenue stream, were potentially incentivising features (paragraph 1.23).

**10 The Department avoided the risk of paying disproportionate rewards to local authorities that set relatively high levels of council tax.** It did so by basing the Bonus payment to all local authorities on the national average council tax, rather than their actual council tax. The amount of Bonus does, however, vary with relative house prices, because higher priced homes fall into higher council tax bands. Therefore, on average, local authorities in areas with higher relative house prices receive higher payments for similar new homes (paragraphs 1.7 to 1.8, 2.11).

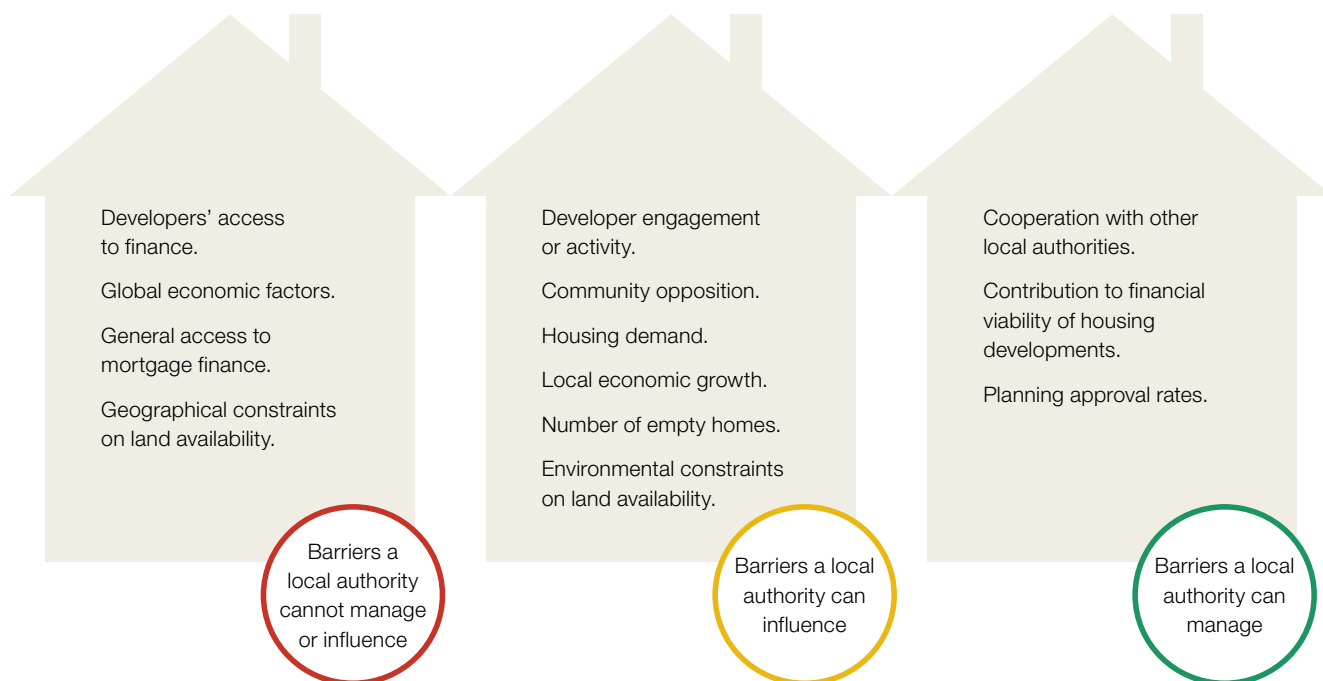
## Monitoring and evaluating the impacts of the Bonus

**11 Measuring the impact of incentives on local authorities to increase housing supply is complex because of the many influences (Figure 4 overleaf) that have differential effects depending on local circumstances.** The Department concluded that it would be impossible to calculate definitively how far the Bonus is responsible for any change in the rate of creation of new homes because of the Bonus’ interplay with other policies (Figure 3), the long-term nature of housebuilding and the wide-ranging effects of barriers such as availability of financing for housing developers and whether there is viable land for housing. Such barriers can be powerful, and their influence varies widely depending on the local new-housing market (paragraph 1.25).

**12 The Department’s estimate of the potential increase in new housebuilding that the Bonus might achieve is unreliable.** The Department estimated that the Bonus would increase housing supply by 8 to 13 per cent over its first ten years, equivalent to around 140,000 additional homes. The Department produced the estimate using modelling for which the assumptions were unrealistic, being based on very limited evidence of local authorities’ actual behaviour. The calculation also contained a substantial arithmetical error which, when corrected, reduces the estimate by around 25 per cent (paragraphs 1.18 to 1.21).

**Figure 4**  
Barriers to local authorities influencing housing supply

There are a range of barriers to local authorities' ability to influence housing supply



Source: National Audit Office

**13 The Department is not currently systematically monitoring the impact of the Bonus.** It plans to review performance in 2013-14 but has not yet determined the review's scope or approach. The Department did not consider impact monitoring in the early years of the Bonus to be justified because of the time lag between planning and completing new housing development. It undertakes general monitoring of indicators such as planning approvals for homes and trends in housing starts and completions, but not specifically against expectations for the effects of the Bonus. The Department did two annual surveys of local authorities' responses to the Bonus that it uses for its own internal monitoring. However, shortcomings in the survey design and application mean that the results, while having some use, must be treated as only broadly indicative (paragraphs 1.26 to 1.30).

**14 By not monitoring the early impact of the Bonus more closely, the Department missed the opportunity to gain insights that might apply to other incentive-based funding that it is introducing from April 2013.** For example, changes to business rate retention may have a more substantial impact on local authority budgets than the Bonus. The Department has not used experience from operating the Bonus to examine how these changes will combine to affect local authorities' funding, or how they might together influence local authorities' attitudes towards housing development and growth (paragraph 2.21).

#### Early evidence of impact

**15 It is too early to tell whether the Bonus will increase new housing.** The Department's impact assessment predicts a measurable increase in new homes from 2016-17. Bonus payments are triggered only once a new home is on the council tax register, and there is a gap of several years between planning and completing a new development. Overall we found little evidence that the Bonus has yet made significant changes to local authorities' behaviour towards increasing housing supply (paragraphs 2.16 to 2.21, 2.29).

**16 The Bonus has so far mainly rewarded home creation that was not incentivised by the Bonus.** The Department started to pay the Bonus from 2011 to mitigate the risk that local authorities would reduce their activities to stimulate new housing after local authorities' housing targets were abolished. The Department recognised that much of the £1.3 billion paid in the first three years would relate to local authorities' pro-growth activities and planning approvals granted before the Bonus started. Local authorities that have benefited from this see the Bonus as a reward for a pro-development stance, which recompenses some of the costs associated with new housing development and consolidates pro-growth behaviour (paragraphs 1.14, 2.23 to 2.24, 2.29).

**17 We found little evidence that the influence of the Bonus is reflected in increased planning approvals for housing.** The link between trends in planning applications and building is not straightforward as some developers hold land with planning permission for several years before commencing development. Local authorities we visited and stakeholders said that the main drivers for planning approvals were housing need, community views and the circumstances of a particular site. In the three years 2009-10 to 2011-12, the proportion of applications local authorities approved ranged between 35 and 100 per cent (paragraphs 2.25 to 2.28).

**18 We found some evidence that the Bonus has given local authorities resources to allow them to protect activities relating to new and empty homes.** The Bonus has, for example, been used to maintain local authorities' capacity to identify and bring empty homes back into use. Similarly, some local authorities have used the Bonus to continue to fund their work with developers on the viability of specific housebuilding projects, which can be resource intensive. Such services might otherwise have been cut or reduced as local authorities respond to reductions in funding (paragraphs 2.30 to 2.33).

## Wider financial consequences of the Bonus

**19** While an individual local authority can see the Bonus it receives, it can make only an approximate estimate of its overall gain or loss as a result of the scheme.

Our 2011 report *Formula funding for local public services* outlined the substantial complexity of the Formula Grant.<sup>6</sup> The Department has confirmed that it is not possible to calculate an individual local authority's exact overall gain or loss because of the complex adjustments to the Grant after the Bonus element is deducted (paragraphs 2.2 to 2.4).

**20** As with funding mechanisms in general, achieving a scheme that is simple to understand and operate is likely to involve risk to fairness. The Department's decision to fund a large part of the Bonus from a deduction from the Formula Grant is seen by some local authorities as unfair. Local authorities that earn only low levels of Bonus will not make up their share of the sum deducted from the Formula Grant. These local authorities are usually in areas where developers are less likely to want to build housing, which are more typically in deprived parts of the country or in areas where land can be more expensive to develop. As we described in our recent report *Financial sustainability of local authorities*,<sup>7</sup> these authorities will need to find ways of managing the financial impact of their inability to make up the reduction of the Formula Grant from receipts of the Bonus (paragraphs 2.7 to 2.11).

**21** The total Bonus increases as it builds towards an estimated payment of £1.4 billion in the sixth year. Some local authorities will gain substantially while others will experience further substantial net reductions in the Formula Grant. The Department was aware the Bonus could result in large cumulative losses for some local authorities, though this effect was not covered in the impact assessment and the Department has done no analysis of the position of individual local authorities. The Department's main mitigation of this impact is the general protection afforded by the Transition Grant.<sup>8</sup> The redistributive effect will increase from April 2013 when the Formula Grant to local authorities will no longer be reduced to account for additional council tax collected on new homes (paragraphs 2.5 to 2.6, 2.12 to 2.15).

## Conclusions

**22** It is too early for the Bonus to have had a discernible influence on the numbers of new homes, in line with the Department's expectations. We have not found evidence that there has yet been measureable change in local authorities' behaviour. At the same time, with an estimated £1.4 billion to be paid out annually in the Bonus through the redistributed Formula Grant by 2016-17, some local authorities face substantial increasing financial risks from the overall reducing effect of the Bonus on their funding.

<sup>6</sup> Comptroller and Auditor General, *Cross-government landscape review: Formula funding of local public services*, Session 2010–2012, HC 1090, National Audit Office, July 2011.

<sup>7</sup> See footnote 5.

<sup>8</sup> The Department allocated Transition Grant totalling £116 million over 2011-12 and 2012-13, which capped a local authority's overall annual reduction in spending power (defined at footnote 1) where it would otherwise have exceeded 8.8 per cent. From April 2013, it is renamed the Efficiency Support Grant.

**23** The Department plans to undertake a post-implementation review of the Bonus in 2013-14, but has not yet decided its scope or methodology. Monitoring and evaluating the impact of the Bonus requires time to develop and explore with the local government sector, to get the most from the available data and intelligence. The Department's approach to monitoring and evaluating the Bonus and its effects is neither timely nor adequate. The Department's proposed review of the Bonus during 2013-14 is essential and urgent.

## **Recommendations**

**24** In our recent report *Financial sustainability of local authorities* we highlighted the uncertainties and risks of funding changes, and the consequent importance of timely assessment of wider effects. We recommended that the Department should better evaluate the impact of decisions on local authority finances and services, before and after implementation. We repeat this recommendation here with specific reference to the cumulative impact of escalating Bonus deductions from the Formula Grant. The Department should monitor the impact of the Bonus and other financial pressures on the spending power of local authorities, especially those most affected, so the pressures can be managed effectively.

**25** In close collaboration with local government and consulting with the housebuilding sector, the Department should carry out its review of the Bonus to:

- a** identify and agree the many influencing factors that need to be considered and potentially adjusted for;
- b** identify the important indicators and work through realistic plans for collecting data to measure them;
- c** improve the design of the Department's annual monitoring survey of local authorities, and work with local authorities and representative bodies to help increase the response rate;
- d** determine those indicators and benchmarks that it would be worthwhile for the Department and local authorities to monitor in the future; and
- e** draw out the lessons and insights about what makes a successful incentive, and consider their application to other financial, incentive-based schemes being introduced.

**26** The Department should review its quality assurance processes to prevent future errors in its analyses and publications.

# Part One

## Design and monitoring

**1.1** Major features of the Bonus scheme reflect the government's aims to incentivise and reward growth. The government had decided that the payment should relate to the council tax raised on new homes, and that the scheme's objective should be to change the behaviour of local authorities and their communities. The Department did not therefore consider substantially different scheme designs, or retaining the previous Housing and Planning Delivery Grant.

**1.2** The Department was, however, able to influence several aspects of the scheme's design. It set out to create an incentive scheme based on five overarching principles: it should be 'powerful, simple, transparent, predictable and flexible'.<sup>9</sup> This part of the report examines what the Department did to:

- understand the link between the characteristics and level of the Bonus and the behaviour it was intended to change;
- select elements of its design;
- align the policy with related policies; and
- develop and implement its monitoring of the scheme's impact.

**1.3** The Department recognised that its five principles were not all compatible and that it had to make some trade-offs in the scheme design. In particular, the Department recognised that a balance needed to be struck between the scheme's simplicity and its fairness to all local authorities.

### Understanding the link between the Bonus and changing behaviour

**1.4** In August 2010, the Department held discussions with representatives from around 15 local authorities about the principles of the scheme and design options to best motivate a change in local authorities' behaviour. Following the discussions, the Department included student accommodation as a class of home attracting the Bonus, which local authorities consider contributes to housing supply.

<sup>9</sup> Department for Communities and Local Government, *New Homes Bonus: final scheme design*, February 2011.



**1.5** The Department also discussed its plans for the Bonus with stakeholders, including local government representatives, special interest groups and professional bodies, and drew on literature on behaviour change. During development it did not, however, consult on the Bonus with the Cabinet Office's Behavioural Insight Team. The team was set up in July 2010 to support departments to apply behavioural change insights to relevant policy areas.

**1.6** The Department set out the proposed design features of the Bonus in its subsequent public consultation and made no changes to the Bonus' design following that consultation. The majority of respondents were positive about all of the proposed design features except for the proposal to split the Bonus payments so that 20 per cent would go to county councils and 80 per cent to district councils. The Department made errors in its analysis of the responses to this question. It published that of the 26 per cent of respondents (a mixture of councillors, local authority officers and stakeholders, sometimes multiple responses from one local authority) who answered yes or no, 45 per cent agreed with the proposals. We calculated that only 24 per cent did so. We also calculated the answers of respondents from county and district councils – those directly affected by the proposal – and only 16 per cent of those expressing a clear opinion approved of the split, though the consultation also indicated no consensus around any alternative approach.

### **The Department's selection of the Bonus' design elements**

**1.7** The Department selected net additions to council tax registers as the basis for calculating Bonus' allocations. The registers have some limitations on their relevance to the scheme. For example, additions include homes that were believed to be empty but subsequently found to be occupied (paragraph 2.32). However, the registers have a major advantage as an existing dataset that the Valuation Office Agency collates independently. This avoided new and potentially costly data collection and resulting bureaucratic burden on local authorities.

**1.8** The Department chose to base Bonus allocations on the national average council tax level for the band of property created, rather than a local authority's actual council tax levels. Local authorities responding to the Department's consultation widely supported this decision as fair, since it does not penalise local authorities with low council tax, which may reflect good local financial management.

**1.9** Local authorities and stakeholders responding to the Department's consultation expressed widely differing views on the Department's decision to split the Bonus between district and county councils. Many district councils consider that they should receive the entire Bonus as they are responsible for local planning. Many county councils believe they should receive a greater proportion as they create infrastructure (for example, new roads) to support housing development. As there are no restrictions on how local authorities can spend the Bonus, and they are using it in many different ways, there is unlikely to be consensus on the most appropriate distribution. The Department suggested to district and county councils that they could renegotiate the split in allocations.

## Alignment with the Department's related policies

**1.10** The Department has several policies designed to support housing development (Figure 3 in Summary). The Department told local authorities early and clearly that the Bonus was one of several reforms designed to incentivise growth. These include the Community Infrastructure Levy, which came into force in April 2010 as a levy on developers to fund infrastructure.<sup>10</sup> It applies to all new homes. Housing developers may also make commitments under Section 106 of the Town and Country Planning Act to fund infrastructure relating to development.<sup>11</sup> Local authorities can revisit these commitments with developers where plans for housing have stalled.

**1.11** The Bonus operates within a complex environment where many factors and policies influence housing supply. Contrary to HM Treasury guidance,<sup>12</sup> the Department's impact assessment did not examine how the Bonus would interact with other policies. The Department did, however, explore how the Bonus could complement the Department's housing objectives, for example, providing affordable homes. It considered options to incorporate a higher Bonus for affordable homes and secured an additional sum for affordable homes from HM Treasury. The Department also incorporated affordable traveller sites into the Bonus.

**1.12** The Bonus aligns with the new *National Planning Policy Framework*,<sup>13</sup> which encourages local authorities to bring empty homes back into use. Empty homes brought back into use are included in the calculation of Bonus payments to local authorities.

**1.13** The Department applied lessons learnt from the Bonus' predecessor policy, the Housing Planning Delivery Grant. It found that the Grant's success had been undermined by numerous changes over its lifetime and the small size of the incentive – around £3,000 per home. The Department has so far kept the Bonus design steady for three years, and the total funding per additional home over six years is higher than the Housing Planning Delivery Grant.

**1.14** The Housing Planning Delivery Grant was withdrawn in June 2010, and the Bonus did not start until the following year. Around the same time the 'regional spatial strategies'<sup>14</sup> ended and were replaced with requirements for local plans under the altered National Planning Policy Framework. All these changes created uncertainty around local authorities' arrangements to promote and approve housing developments. The Department alleviated some uncertainty by writing to local authorities in August 2010 to tell them that they were introducing the Bonus in the following year, 2011-12.

10 The Community Infrastructure Levy Regulations 2010 introduced a planning charge that allows local authorities to raise funds from developers to fund infrastructure that is needed as a result of development, for example, transport schemes or flood defences.

11 Town and Country Planning Act 1990 ([www.legislation.gov.uk/ukpga/1990/8/contents](http://www.legislation.gov.uk/ukpga/1990/8/contents)). Section 106 allows a local planning authority to enter into a legally-binding agreement with a developer to provide, for example, green space or affordable housing, to minimise the impact on the local community or provide community benefits.

12 HM Treasury, *The Green Book: Appraisal and Evaluation in Central Government*, 2003.

13 Department for Communities and Local Government, *National Planning Policy Framework*, March 2012. The National Planning Policy Framework sets out the government's planning policies and how these are expected to be applied. Local authorities must consider them when developing local plans and in planning decisions.

14 Regional spatial strategies were the regional level plans in England from 2004. They covered the scale and distribution of housing alongside environmental, transport and other infrastructural needs.

**1.15** The Department's changes to the distribution of the Formula Grant have introduced an additional incentive to local authorities to promote new homes. Up to April 2012, a local authority's share of the Grant was set by a funding formula that took into account the local authority's ability to draw on revenue from council tax. The Formula Grant was reduced if the local authority raised more council tax on additional homes. From April 2013, a local authority's Grant will not decrease if its council tax base increases.

### **Coordination with other departments**

**1.16** The Department's business case for the Bonus noted that conflict between government policies was a potential risk to its success. In 2010, the Department used the usual Cabinet Office procedures to inform and seek feedback from other government departments about the scheme's design. While developing the scheme, the Department met with other departments, including the Department for Business, Innovation and Skills and HM Treasury. The departments were interested in the trade-offs between incentivising homes and incentivising business development.

**1.17** Several of the risks in the Department's risk register relate to pressures on the availability of rented housing, and the associated impacts from current welfare reforms. We found no evidence that the Department, with the Department for Work and Pensions, considered the impacts of the respective policies they were developing on each department's ability to meet its objectives. The Department for Work and Pensions had no comment to make on the Bonus' design.

### **Modelling to understand the link with local authority behaviour**

**1.18** The Department used a spreadsheet model to explore several possible changes in local authority behaviour from the Bonus. This was used to support the Bonus' impact assessment, which made a case for a positive impact on creating homes. Through the model, the Department examined a number of scenarios to show a range of potential impacts on housing supply from introducing the Bonus. The Department based the scenarios on assumptions about the strategies local authorities might follow, and considered some constraints on local authorities' ability to follow these strategies.

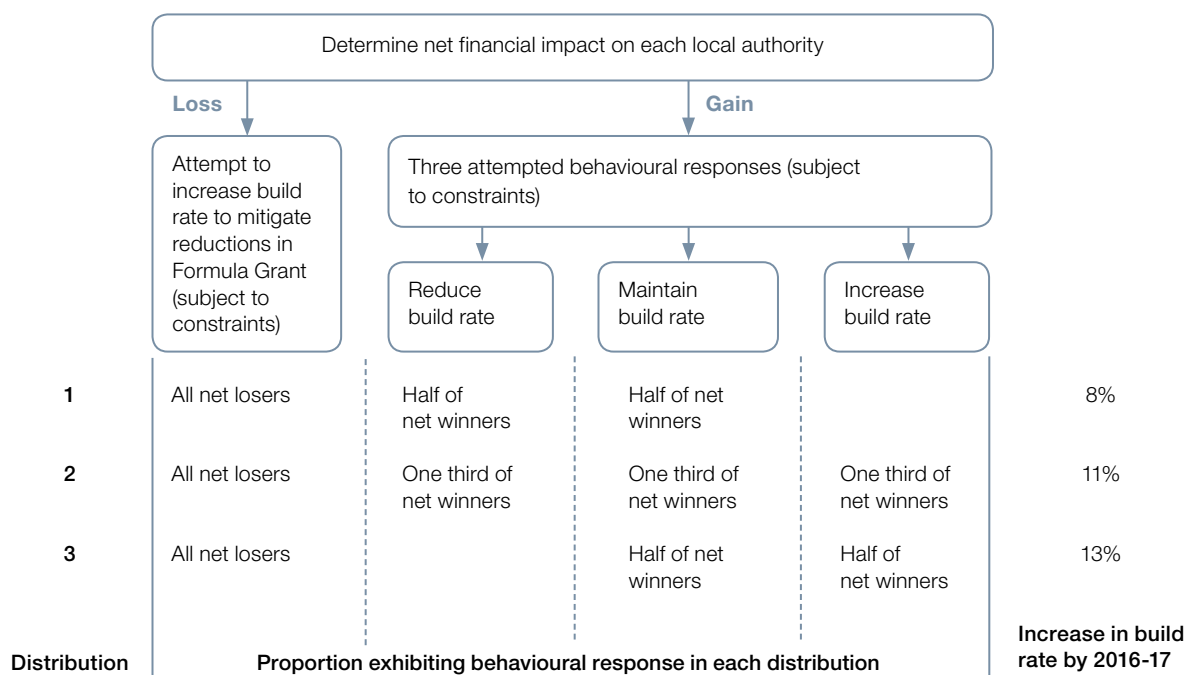
**1.19** Using this model, the Department estimated that the Bonus could lead to 8 to 13 per cent additional homes created per year from 2016-17. This is equivalent to around 140,000 new homes over the first ten years at the midpoint of this estimate.

1.20 The modelling involved the following stages:

- The Department estimated the net financial impact of the Bonus on individual local authorities. It estimated a local authority's Bonus allocation using build rates from 2005-06 onwards and subtracting the authority's estimated Formula Grant deduction.
- The Department allocated potential behavioural responses to local authorities based on their estimated net financial position. Local authorities estimated to face a net financial loss were assumed to attempt to increase their build rate. Local authorities estimated to make a net financial gain were randomly assigned one of three attempted responses: reducing, maintaining or increasing their build rate.
- The Department calculated the number of additional homes built in each local authority area for each behavioural response, and from that calculated the change in build rate.
- The Department capped the change in build rate at 30 per cent, or less for local authorities with historically low rates of planning approvals, low demand for homes or low land availability.
- The Department ran the model three times using different distributions of behavioural responses for local authorities making a net financial gain (Figure 5).

**Figure 5**  
Range of scenarios in the Department's modelling

The Department ran the model to reflect local authorities' differing behavioural responses



Source: Adapted from Department for Communities and Local Government, New homes bonus consultation, Appendix E Consultation stage impact assessment, November 2010

**1.21** We do not think the model, published with the impact assessment, was sufficiently reliable to support the Department's estimated range of new homes built because of the Bonus. Some of the assumptions underpinning the model were not evidenced, and it is sensitive to changes in some of the assumptions:

- The Department did not test the validity of the behavioural changes, which the model is based on, with local authorities. The consultation showed some support for the methodology used in the impact assessment but did not directly ask respondents whether the behavioural responses used in the modelling were realistic. Understanding how local authorities might actually respond to the Bonus would have supported a more informed assessment.
- The behavioural responses included in the model are not realistic. Our evidence from stakeholders and the local authorities we visited indicated that action to increase build rate would not necessarily follow where a local authority believes it is making a net financial loss as a result of the Bonus.
- The Department did not consider a sufficient range of scenarios. Most local authorities making a net loss were expected to attempt to increase their build rate. A more sophisticated assessment of how local authorities in different situations might react would have allowed a more reliable estimate of the potential impact on housing supply.
- The Department told us that individual local authorities can make only an approximate estimate of their net financial gain or loss as a result of the Bonus. However, the model is based on local authorities responding to their net financial position.
- The model includes an arithmetical error, which the Department accepts. This error significantly increased the estimated impact of the scheme on build rates. When the error is corrected the model's prediction of the change to build rate is 6 to 11 per cent, equivalent to around 108,000 new homes in the first ten years of the scheme at the midpoint of this range.
- We found that the model is sensitive to changes in the underpinning assumptions, but the Department did not do a sensitivity analysis. For example, reducing the cap on the change in a build rate to 20 per cent reduces the estimation of new homes created in the first ten years by around 25 per cent. Increasing the cap to 40 per cent increases the estimation of new homes over the same period by around 18 per cent.

**1.22** The arithmetical error was one of several shortcomings in the Department's quality assurance during the design process. We also noted errors in the worked example of the Bonus given to local authorities, miscalculation of the level of agreement from respondents to questions in the public consultation, and poor design of the annual feedback survey of local authorities (paragraphs 1.6, 1.23 and 1.28).

## Communicating the Bonus

**1.23** The Department communicated the scheme to local authorities clearly and transparently. While it made arithmetical errors in the worked example accompanying its briefing to local authorities, its guidance was otherwise clear and we found that local authorities and stakeholders we met understood how the Bonus works. Most local authorities and stakeholders praised the scheme's simplicity, enabling it to be explained to, and understood by, local authority officers, councillors and local communities. This quality supports the scheme's purpose of encouraging communities and local decision-makers to accept new development, by understanding the direct link between new homes and financial reward.

**1.24** Understanding the net impact of the Bonus on a local authority's finances is, however, more problematic. We cover this aspect in Part Two (paragraphs 2.2 to 2.15).

## The Department's monitoring of the Bonus

**1.25** Establishing causality for policies in a complex environment such as housing supply is difficult. We agree with the Department's assessment that it is not possible to separate the impact of the Bonus from other policies and wider factors affecting housebuilding. Neither is it possible to robustly assess what the housing supply would have been without the Bonus.

**1.26** However, the Department could have developed a more sophisticated and robust statistical model, to help monitor the Bonus' effects. It could, for example, have used the model to identify local authorities likely to lose the most funding through the Bonus scheme, track their actual experience, and work together to monitor the risks. The Department does not intend to use modelling to compare estimated impact with actual results.

**1.27** When launching the Bonus, the Department committed to working closely with local authorities to monitor and evaluate its effectiveness. However, the Department's single published business plan indicator is the average Bonus payable per home per year to different classes of local authority. It has so far undertaken only limited exploration of the impact of the Bonus on local authority behaviour through surveys of local authorities. It has not yet explored whether the Bonus is improving local communities' perceptions of new housing development.

**1.28** The Department's two annual surveys of local authorities on the effect of the Bonus, which it uses for its own internal monitoring, ask six questions about attitudes towards housing development and perceived effectiveness of the Bonus. While the surveys provide some helpful information, their usefulness is limited for the following reasons:

- There is a risk that the survey responses are not representative because its distribution is not systematic, some local authorities provide more than one response from different officers and councillors, and some responses are anonymous. It is not possible to establish reliable trends for the same reason.
- The number of responses has fallen – 265 replies from district councils in 2011 and 136 in 2012; 21 replies from county councils in 2011 and 5 in 2012.
- One question asks local authorities to estimate the impact of the Bonus on housing supply over five years. The question does not offer an option of an increase or decrease of between 1 per cent and 9 per cent. This is despite the Department's own anticipated impact of an increase in housing supply of between 8 and 13 per cent over ten years.

**1.29** The Department currently collects data on the number of planning applications to local authorities, but not the numbers of homes to which applications relate. To fully understand the Bonus' influence on potential new homes, the Department must know the number of homes in applications. The Department has recently purchased commercial planning data that are more detailed, including information on the number of homes in each planning application. The Department intends to use these data as part of its monitoring of the influence of the Bonus.

**1.30** The Department intends to formally review the Bonus scheme in 2013-14, three years into its implementation. It has not yet decided the scope or methodology to assess the impact of the Bonus on encouraging new homes, or its financial impact on local authorities. It is planning to focus on monitoring longer-term outcomes, such as the increase in the council tax base, rather than short- and medium-term behavioural change.

## Part Two

### Impact and consequences of the Bonus

**2.1** This part of the report examines the implications of the Bonus for local authorities' financing, the effects on the local authorities' attitudes and behaviours, and signs of its impact to date on home creation.

#### Consequences of the Bonus for local authorities' income

**2.2** Local authorities find it fairly easy to calculate the amount of Bonus they will receive. The Department provided an online calculator for local authorities to calculate the amount of Bonus they would receive for projected numbers of additional homes. Between 1 December 2011 and 15 November 2012, the calculator was accessed 5,500 times, suggesting local authorities are using it.

**2.3** Local authorities can make only an approximate estimate of the net effect of the Bonus on their Formula Grant. This is because the size of the deduction from the Formula Grant to fund the Bonus depends on the total number of homes that all local authorities create. A single authority cannot, therefore, predict the size of the national deduction and how it will affect its funding. Some local authorities cited resulting difficulties with their financial planning. However, in practice the uncertainties they face relate to the overall complexity and unpredictability of the Formula Grant, which we have previously examined.<sup>15</sup>

**2.4** Our analysis of 100 local authorities' medium-term financial strategies found that 50 per cent included a projection of the amount of Bonus for two or more years. However, local authorities cannot reliably calculate how many new homes they need to build so that Bonus receipts compensate for, or exceed, their share of the deduction from the Formula Grant.

**2.5** The Bonus is paid for each new home for six years (**Figure 6**). The Department is phasing the Bonus across six years to protect local authorities from sudden changes in income. The Department also believes that spreading the specific Bonus grant across the first four years will further mitigate the impact of the Formula Grant reduction.

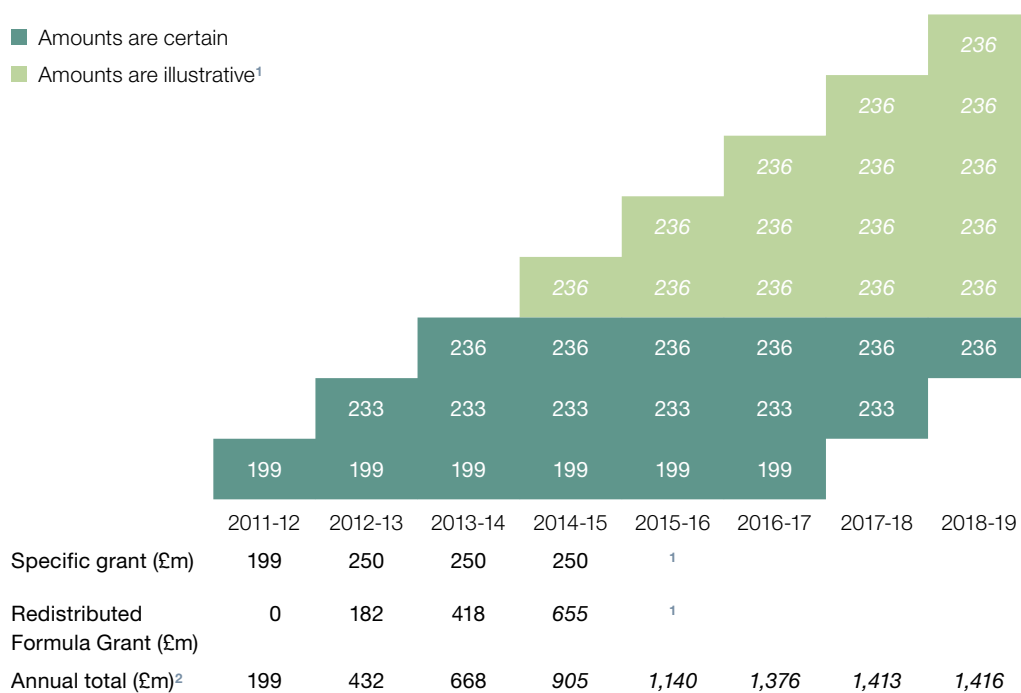
<sup>15</sup> Comptroller and Auditor General, *Formula funding of local public services*, Session 2010–2012, HC 1090, National Audit Office, July 2011.



**Figure 6**  
Bonus payments projection (£m)

Payments of the New Homes Bonus are increasing over six years

- Amounts are certain
- Amounts are illustrative<sup>1</sup>



#### NOTES

- 1 The mix of grant and redistribution of Formula Grant from 2015-16 will be decided at the next spending review.
- 2 Numbers in italics are only illustrative of future payments, based on the 2013-14 payment.
- 3 Numbers are rounded and may not add to totals.

Source: National Audit Office analysis of Department for Communities and Local Government's data on Bonus grants and allocations

**2.6** Over the first three years of the Bonus, the total amount paid has been broadly as the Department anticipated. In 2011-12, it paid £199 million, in 2012-13, it paid £432 million, and it will pay £668 million in 2013-14. Figure 6 illustrates that total Bonus paid nationally could be between £1.3 and £1.4 billion by 2016-17. The Bonus thus forms an increasing proportion of local authority income because the scheme is cumulative, potentially increasing its incentivising effect.

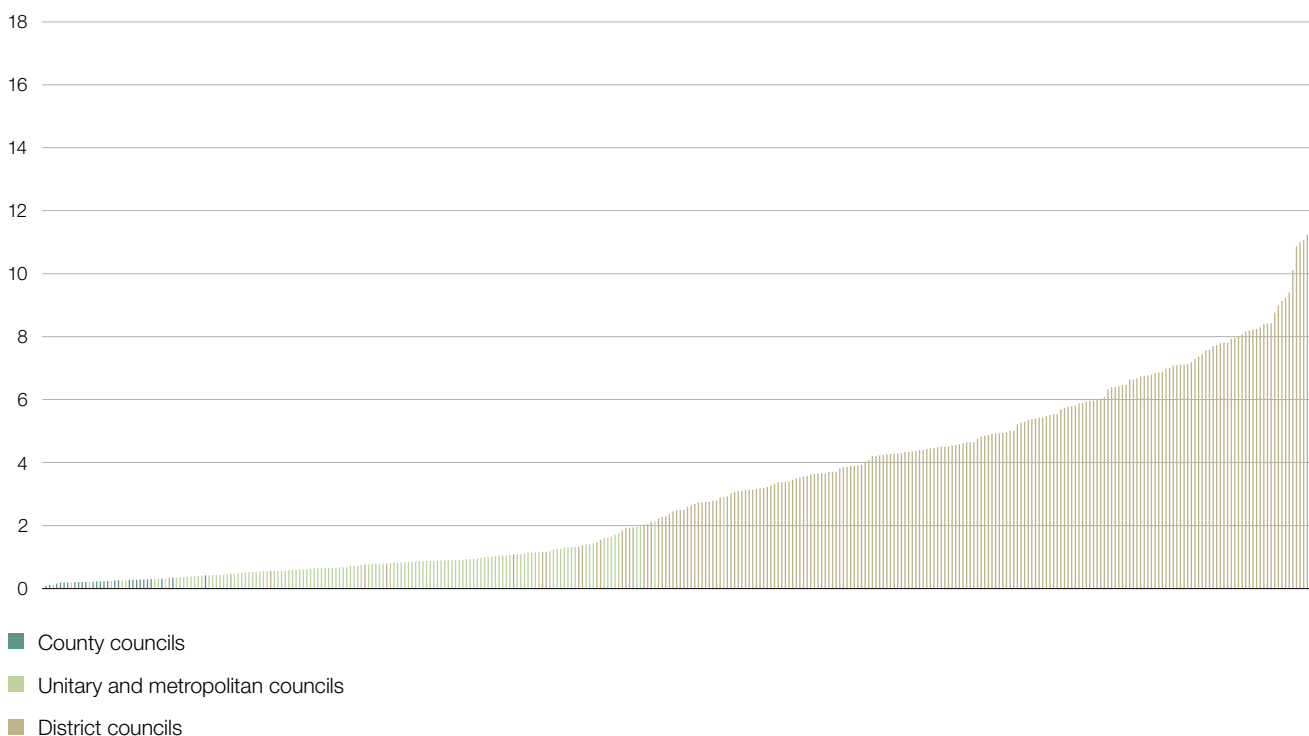
**2.7** The Bonus generally makes up a greater proportion of the income of district councils compared with other types of council (**Figure 7**). This ranges up to 17 per cent as a proportion of spending power in 2012-13, averaging 5 per cent. Unitary, London and metropolitan councils range up to 3 per cent as a proportion of spending power in 2012-13. District councils receive proportionally less government funding than unitary and metropolitan councils as they share responsibility for local service delivery with county councils. Therefore, the effect of having the Bonus as a large and increasing proportion of their Formula Grant is especially significant for them. The Bonus is a smaller proportion of county council income than for other types of local authority as they receive only 20 per cent of the Bonus.

## Figure 7

Bonus allocation as a proportion of councils' spending power,<sup>3</sup> 2012-13

The Bonus varies widely as a proportion of councils' spending power

Percentage



### NOTES

- 1 Each bar represents one local authority.
- 2 Excludes City of London.
- 3 Spending power is explained in footnote 1, Key Facts.

Source: National Audit Office analysis of Department for Communities and Local Government's data on New Homes Bonus allocations and local authority spending power

**2.8** Although the Bonus makes up a higher proportion of district council funding, all local authorities have proportionally similar reductions in Formula Grant to fund the total Bonus allocation. County councils are most likely to make a net financial loss because of the Bonus. They receive only 20 per cent of the Bonus for additional homes in their area but have a proportionally similar deduction from Formula Grant to other types of local authority.

**2.9** The Bonus also varies widely as a proportion of individual local authorities' spending power (Figure 7). From our case studies we found that, generally, local authorities where the Bonus forms a larger proportion of their finances are more likely to prioritise activities that encourage housing development. Bigger Bonus allocations give those local authorities a larger visible funding stream, which helps them to justify its partial use to protect housing-related activities in a time of general funding reductions.

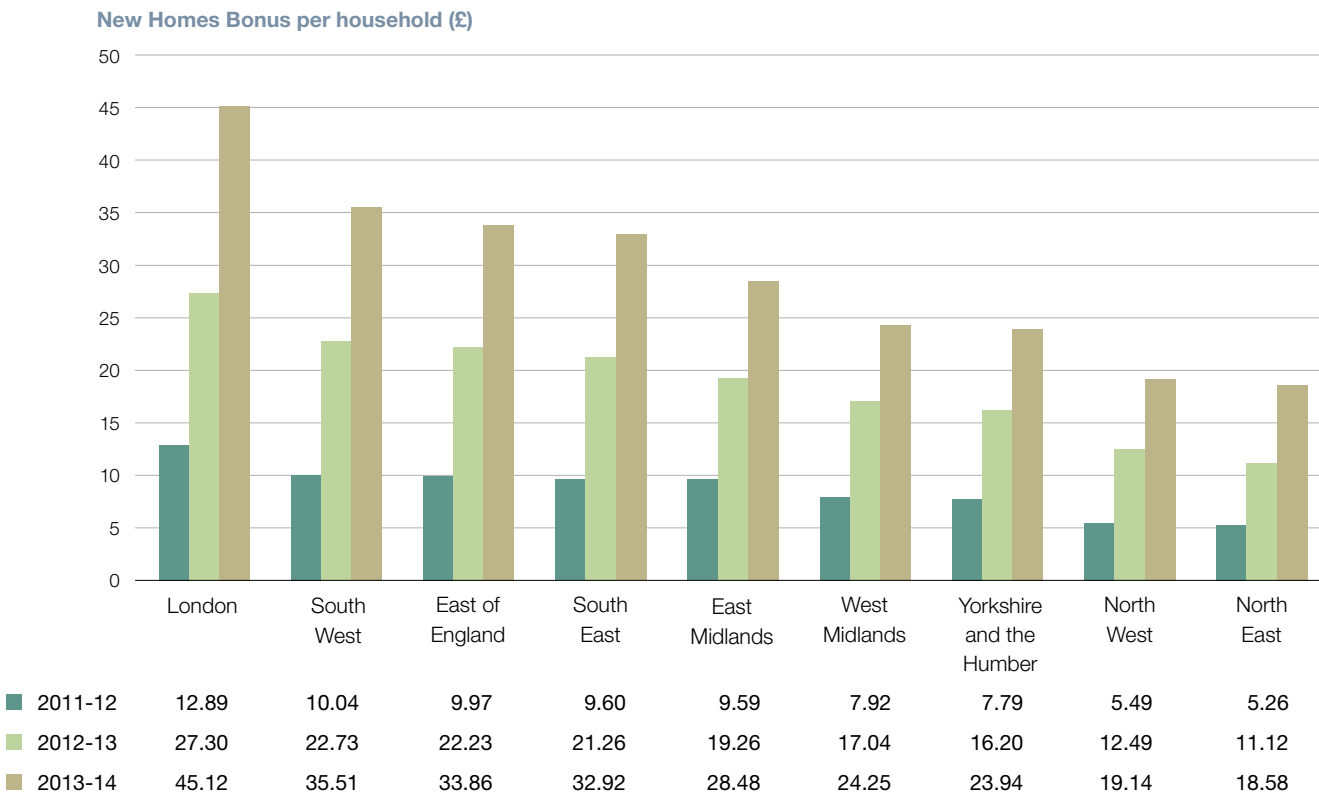
**2.10** Local authorities in the south of England generally receive more Bonus per household than in the north. London boroughs on average receive most per household (Figure 8 overleaf). The 2013-14 average Bonus per household is £45.12 in London compared with less than £20.00 in the north-west and north-east of England. This regional distribution broadly reflects local economic circumstances and the strength of local housing markets that in turn affect the level of housing development. There is also wide variation between local authorities within regions (Figure 9 on page 27).

**2.11** When a new home is built, the Valuation Office Agency assigns it to a council tax band according to what its market value would have been in 1991 rather than, for example, the number of bedrooms or current value. Homes in the north of England tend to have lower council tax bands than identical homes in the south: 56 per cent of homes in the north-east of England are band A, compared with 3.5 per cent in London. As the Bonus is paid according to council tax band, local authorities where house prices were lower in 1991 receive a smaller Bonus for each additional home of a given size than local authorities where house prices were greater.

**2.12** The Department's impact assessment did not cover the potential financial risk for local authorities that lose funding as a result of the Bonus. Its modelling assumed that if a council is a net loser of Formula Grant, it will be incentivised to build more to maximise the amount of Bonus it receives. However, depending on the local situation, such as the strength of the local housing market, some local authorities may not be able to change their behaviour and develop additional homes. Given these unpromising conditions, these local authorities are also more likely to spend any Bonus on maintaining statutory services.

**Figure 8**  
 Bonus allocations per household by region

Local authorities in London and the south of England generally receive more Bonus per household than in the north



Source: National Audit Office analysis of Department for Communities and Local Government's data on New Homes Bonus allocations and the Office for National Statistics 2011 census data

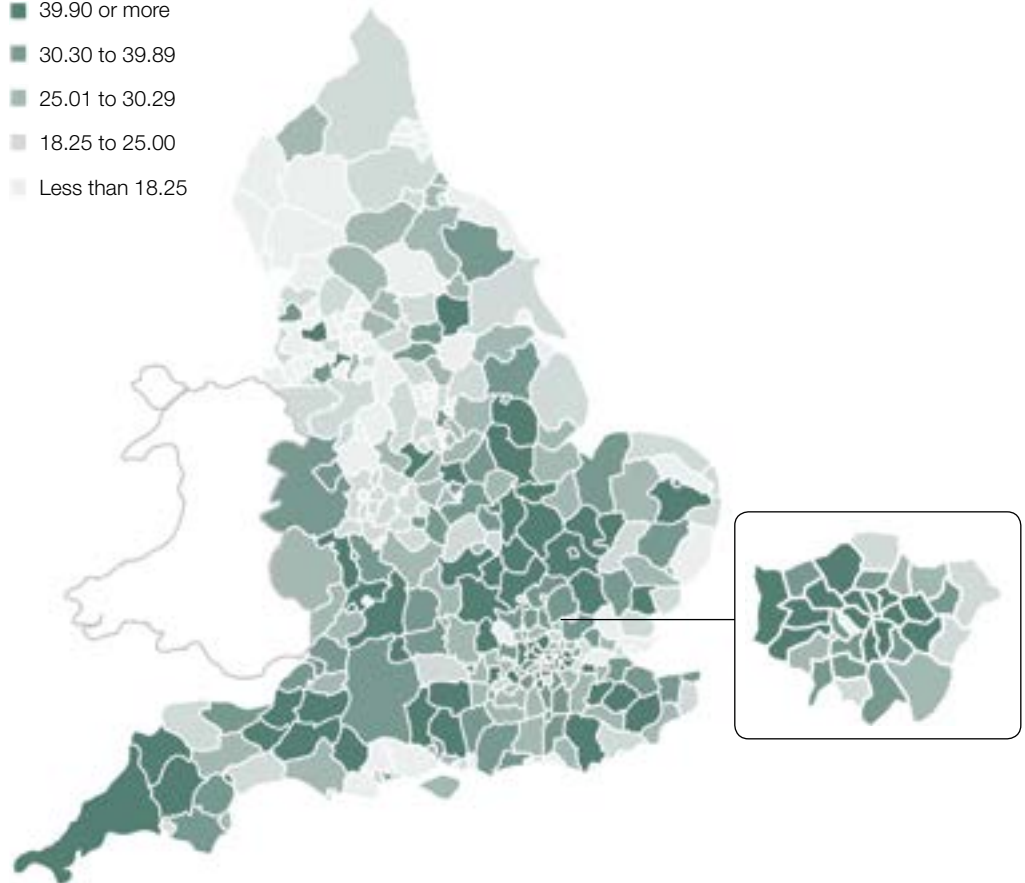
**Figure 9**

## Bonus allocations per household by local authority

There is large inter- and intra-regional variation in Bonus allocations

**2013-14 payment per household (£)**

- 39.90 or more
- 30.30 to 39.89
- 25.01 to 30.29
- 18.25 to 25.00
- Less than 18.25

**NOTES**

- 1 Bonus allocations for district councils have been grossed up to 100 per cent.
- 2 Local authorities have been divided into five equal sized groups.

Source: National Audit Office analysis of Department for Communities and Local Government's data on New Homes Bonus allocations and the Office for National Statistics 2011 census data

**2.13** In July 2010, the 2020 stakeholder group<sup>16</sup> alerted the Department to the Bonus' potential to redistribute funds away from deprived areas and areas undergoing regeneration. The Department noted itself the risk that some local authorities would experience substantial cumulative losses, leading to a detrimental impact on local public services. Subsequently, reports by Unison and the Association of North East Councils have cited a 'regional divide' whereby Bonus allocations are greater on average in the south of England than the north.

**2.14** The Department's policy is not to respond to representations about local authorities' Formula Grant allocations while they are provisional, or to speculate about future allocations. The Department has not published forecasts for the Bonus, believing local authorities to be best placed to forecast local housing growth. From August 2012, the Department included the Bonus in its assessment of the combined impacts of changes to local authority funding.

**2.15** The Department's main mitigation of the impact of changes in the Formula Grant, whether resulting from the Bonus or other funding changes, is the general protection afforded by the Transition Grant. This was an additional payment in 2011-12 and 2012-13 that limited a local authority's annual reduction in spending power where it would otherwise have exceeded 8.8 per cent. In both years the calculation of spending power did not include Bonus payments. In 2011-12, 44 local authorities that received £96.2 million in total in Transition Grant also received £27.1 million in Bonus payments, with six receiving Bonus allocations of over £1 million. In 2012-13, 12 local authorities received £20.0 million in total in Transition Grant and £4.2 million in Bonus payments, with one authority receiving a Bonus allocation of over £1 million. Across both years, most of these authorities received lower than that year's average Bonus per household (paragraph 2.10).

### **The Bonus' influence on behaviour**

**2.16** For many local authorities, whether the Bonus influences behaviour depends substantially on local conditions. Local authorities told us that the Bonus often cannot compete with other factors, such as land availability, local demand for housing and the ability to attract developers to the area. The Bonus is especially ineffective where barriers to local authorities' ability to change the housing supply are too great. Some local authorities suggested that, while Bonus payments may allow some creative activity around the margins of housing supply, they were not sufficient to prompt significant behaviour change. However, some local authorities and stakeholders we consulted considered that the £350 affordable homes premium was a welcome supplement to other funding for affordable housing.

<sup>16</sup> Set up by Shelter, its remit is to maintain focus on, and to support the delivery of, sufficient new housing to meet arising need and address the housing shortage.

**2.17** Most local authorities we visited were positive about the Bonus payment being over six years for each new home. They considered that an incentive over a substantial time period was more likely to motivate long-term changes in behaviour and to influence decisions that take time to have an impact. However, some suggested that ten years would have been a better match for the typical major housing development cycle. The Department intends the Bonus to be a permanent feature of local government funding. Even so, most local authority finance directors we spoke to were not making financial plans on the assumption that the Bonus will continue beyond 2015, because of the risk of future policy changes.

**2.18** Some stakeholders suggested to us that rewarding current or future behaviours would be a more effective incentive. This is because the long gap between desired behaviour and receiving the Bonus reduces the immediacy of the reward, and with it a degree of the incentivising effect. The gap is longer still for affordable housing, where the additional payments are received a year later. One positive effect of the gap is to increase the incentive for local authorities to work with developers to reduce the time between granting planning permission and completion. This is sometimes caused by developers holding planning permissions but delaying development. Some local authorities have reduced the gap by negotiating Section 106 agreements<sup>17</sup> that are less onerous for developers, or even guaranteeing to buy new homes where developers are uncertain about sales on completion.

**2.19** Local authorities receive payments of the Community Infrastructure Levy as a development begins. For this reason, and because the Levy is directly linked to infrastructure for a specific development, some local authorities consider it as more helpful than the Bonus for engaging with communities about potential new housing.

**2.20** Some stakeholders thought that paying the Bonus on the net number of new homes might incentivise greenfield development over brownfield development, or deter local authorities from promoting sites where demolitions are required. However, we found no evidence that basing the Bonus allocations on net additions to the council tax register was leading local authorities to favour new development over regeneration programmes requiring demolition. Overwhelmingly, local authorities, and particularly councillors, emphasised the priority of their community's needs, and that the benefits for residents would guide decisions on regenerating substandard housing.

**2.21** The Bonus is payable when 'houses in multiple occupation'<sup>18</sup> are converted into a number of separate homes, individually liable for council tax. Such conversions may or may not lead to housing that accommodates more people, and therefore local authorities may receive Bonus payments for actions that do not increase housing supply. As for greenfield versus brownfield developments, however, local authorities suggested that their community's needs were the principal consideration. Authorities said that reducing the number of houses in multiple occupation would be driven by a desire to improve housing quality rather than to increase Bonus payments.

<sup>17</sup> See footnote 11.

<sup>18</sup> A house or flat in which two or more households live as their main or only residence and where some facilities are shared, such as a kitchen, toilet or bathroom.

**2.22** Substantial changes to local authority funding, being introduced from April 2013, are intended to provide other incentives to local authorities. Local authorities will keep a share of any business rates increase (one of the main sources of local government funding) in their area as an incentive to promote business growth. Also, from April 2013, council tax benefit is being localised. Instead of paying benefits set by central government, local authorities will implement their own council tax support schemes. One effect of this change will be to give local authorities a direct financial interest in levels of local employment and pay that would reduce the numbers of people requiring support. The relative impacts of these changes and the Bonus are again likely to depend substantially on local circumstances.

### Reinforcing pro-development attitudes towards new housing

**2.23** We found some evidence that the Bonus is reinforcing existing behaviour in local authorities that have already been promoting housing development. Typically these local authorities have engaged actively with communities to identify and negotiate suitable and acceptable development, reducing the likelihood of local opposition. Many of the people we interviewed emphasised the difficulties local authorities have in persuading some communities to accept new development, for example because of strongly held concerns about increasing pressure on local services and amenities. Success requires time, patience, and parallel efforts to develop and maintain good relationships with housing developers, so they can focus on the more suitable sites. Developers will often also need to work with existing residents to overcome opposition and address viability issues that could make a development that would be acceptable to the community unaffordable. Local authorities that have received relatively generous Bonus allocations in the first three years of the scheme see the payments as reward for a pro-development stance. This is often risky politically for councillors making the decisions.

**2.24** Around 40 per cent of respondents to the Department's survey in 2011 (paragraph 1.28) from district, unitary and London and metropolitan borough councils reported that they were now more supportive of tackling empty homes, and around 30 per cent were more supportive of housing growth and providing affordable housing. Only 6 per cent reported that they were more supportive of providing traveller sites. The number of respondents to the Department's survey of district, unitary and London and metropolitan borough councils in 2012 dropped by around half. However, it showed that 41 per cent of respondents had a more supportive or significantly more supportive overall attitude to housing growth because of the Bonus, compared with 29 per cent in 2011.



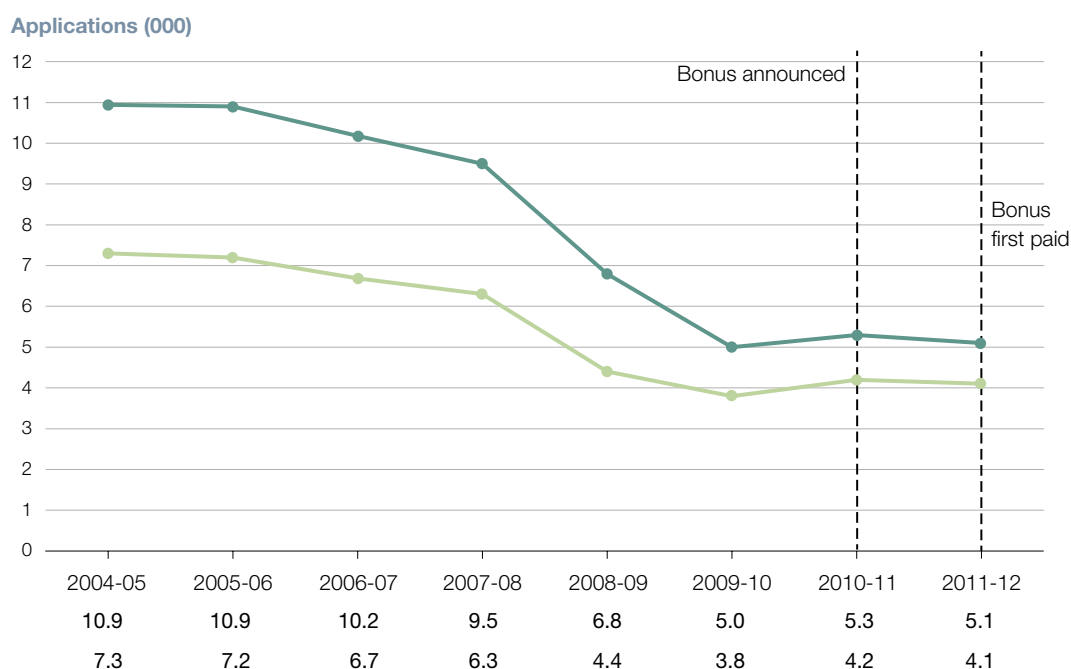
## Planning application decisions

**2.25** The number of planning approvals for major residential developments (ten or more homes) has fallen from around 7,300 in 2004-05 to around 4,100 in 2009-10, and it has since stabilised (**Figure 10**). The proportion of major residential planning applications approved has increased substantially since 2008-09 from around 65 per cent to over 80 per cent (**Figure 11** overleaf), though in a small number of local authorities the proportion is below 40 per cent (**Figure 12** on page 33). While it is likely that this translates into proportionally more new homes approved than rejected, this is uncertain because the Department does not hold data on the number of homes per planning application. We found no association between individual local authorities' planning application approval rates and their numbers of homes qualifying for the Bonus.

### Figure 10

Number of major residential planning application decisions made and permissions granted, England, 2004-05 to 2011-12

The number of planning applications and approvals stabilised around 2009-10 following downward trends over the preceding decade



#### NOTE

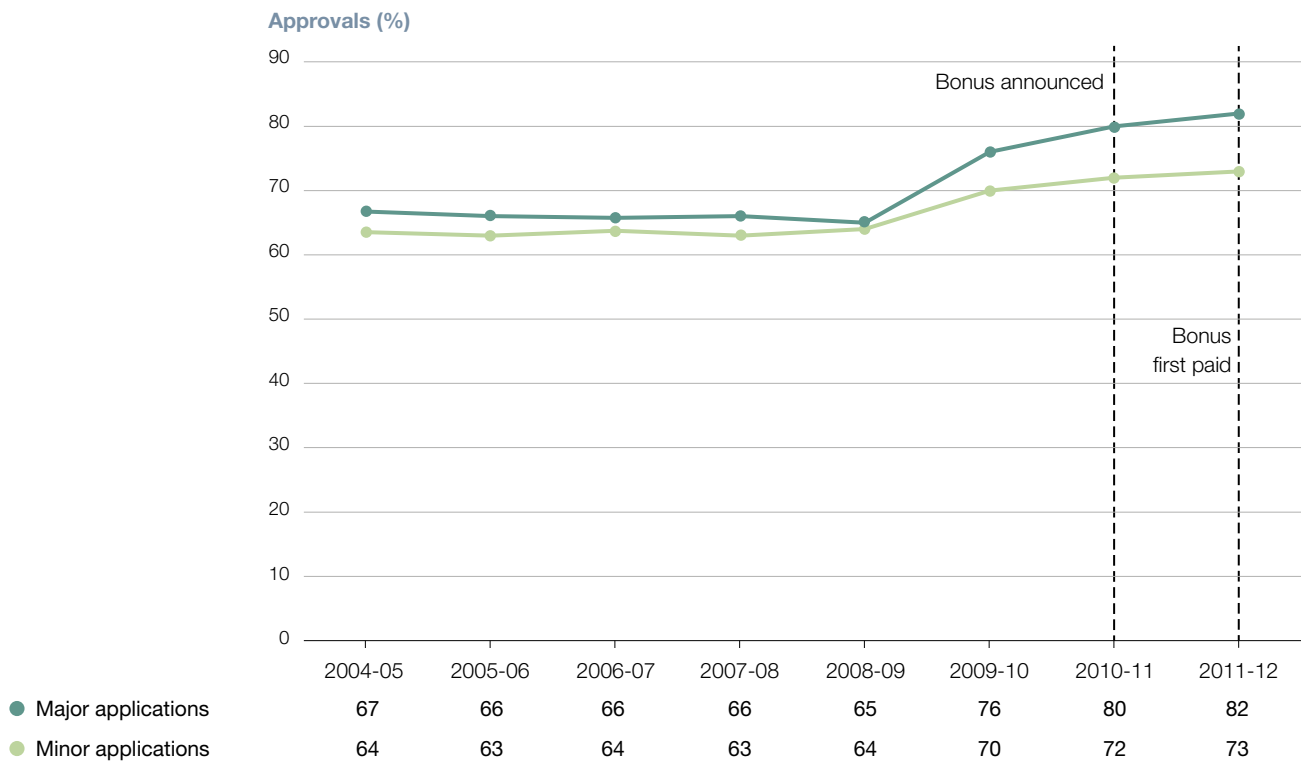
1 'Major' applications cover ten or more homes.

Source: National Audit Office analysis of Department for Communities and Local Government's data on planning

**Figure 11**

Residential planning application approval rates in local authorities in England, 2004-05 to 2011-12

Planning approval rates have increased in recent years to over 80 per cent for major applications



**NOTE**

1 'Major' applications cover ten or more homes, 'minor' applications cover one to nine homes.

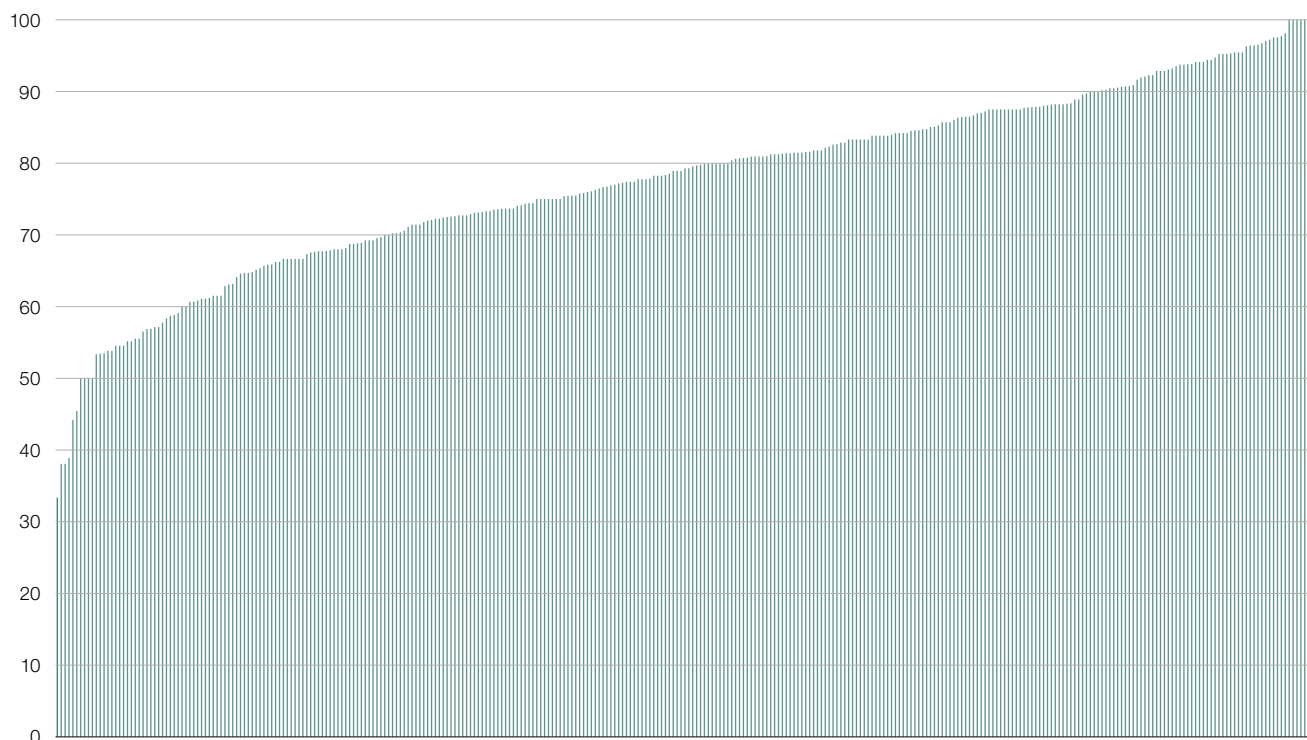
Source: National Audit Office analysis of Department for Communities and Local Government's data on planning

**Figure 12**

Local authorities' major residential planning application approval rates 2009-10 to 2011-12

**Local authorities' planning approval rates vary widely**

Percentage

**NOTES**

- 1 Each bar represents one local authority.
- 2 'Major' residential planning applications cover ten or more homes.
- 3 Calculated on total applications across the three years.

Source: National Audit Office analysis of Department for Communities and Local Government's data on planning

**2.26** We found little evidence from our local authority visits that the Bonus has influenced local authority planning decisions. While it is lawful for local authorities when determining a planning application to take into account local financial considerations that are material to an application, including receiving departmental funding, most local authorities said they prioritise other material planning considerations, for example whether there is sufficient infrastructure to support a development.

**2.27** Some local authorities said that they did not refer to the Bonus in communications with local communities. They had concerns that it may undermine trust that planning decisions are being made for the right reasons and not for the local authority's financial gain. Where local authorities use the Bonus to support core funding, they are concerned that communities may not see the funds as leading to additional benefit.

**2.28** The Local Government Association has cited that there are 400,000 homes approved for development that are awaiting completion, with building yet to start on over half of approved sites.<sup>19</sup> Some developers hold land with planning permission for several years before commencing development, and therefore changes in planning trends do not straightforwardly precede changes in building rates.

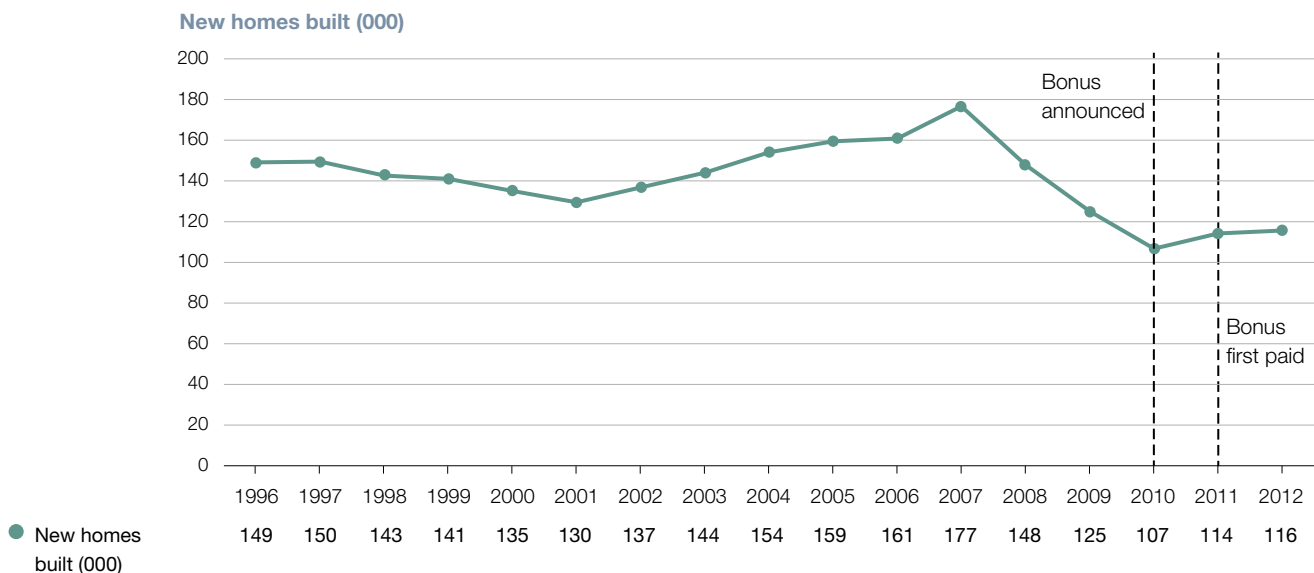
### Impact on new homes creation

**2.29** In line with the Department's expectations, it is too early to say whether the Bonus is affecting the number of new homes. There was a small rise in the rate of new homes built in the year that the Bonus was introduced (**Figure 13**). However, the number of new homes started did not increase (**Figure 14**) and it is too early to confirm trends. The Bonus has to date mainly rewarded housebuilding that started before the Bonus was introduced. Any trend will take several years to emerge, given the gap between awarding planning permission, construction starting, and buildings being completed. The Department must also measure the effect of other influences on housing supply. For example, recent increases may be partly due to the housing market starting to recover after a deep recession.

**Figure 13**

Total new homes built in England, 1996 to 2012

It is too early to say whether the Bonus has increased the number of new homes



**NOTE**

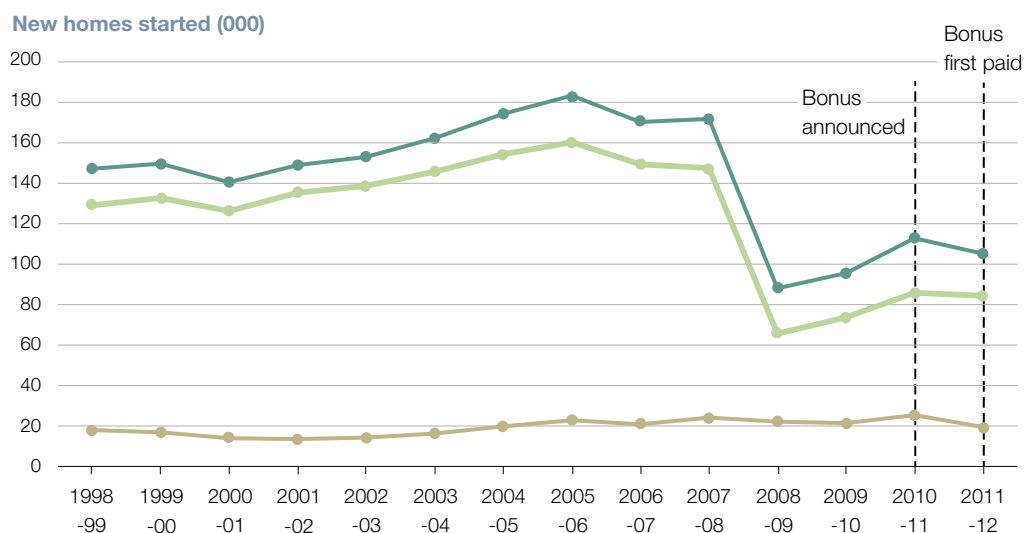
1 Some data missing for October 2005 to March 2007.

Source: Department for Communities and Local Government, table 244, "Permanent dwellings completed, by tenure, England, historical calendar year series"

19 Local Government Association, *An analysis of unimplemented planning permissions for residential dwellings*, September 2012.

**Figure 14**  
Number of new homes started in England

The number of housing starts has not increased since the Bonus was introduced



|                                  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008 | 2009 | 2010  | 2011  |
|----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|-------|-------|
|                                  | -99   | -00   | -01   | -02   | -03   | -04   | -05   | -06   | -07   | -08   | -09  | -10  | -11   | -12   |
| ● Number of housing starts (000) | 147.2 | 149.7 | 140.5 | 149.0 | 153.1 | 162.3 | 174.3 | 183.4 | 170.3 | 171.8 | 88.1 | 95.6 | 112.8 | 105.1 |
| ● Private enterprise (000)       | 129.1 | 132.7 | 126.3 | 135.4 | 138.7 | 145.8 | 154.3 | 160.3 | 149.4 | 147.4 | 65.7 | 73.8 | 85.9  | 84.3  |
| ● Housing association (000)      | 18.0  | 16.8  | 14.0  | 13.5  | 14.2  | 16.3  | 19.8  | 22.8  | 20.8  | 24.2  | 22.1 | 21.5 | 25.3  | 19.5  |
| ● Local authority (000)          | 0.1   | 0.2   | 0.2   | 0.1   | 0.2   | 0.3   | 0.2   | 0.3   | 0.2   | 0.2   | 0.3  | 0.3  | 1.7   | 1.3   |

Source: Department for Communities and Local Government, table 253, "Permanent dwellings started and completed, by tenure and district"

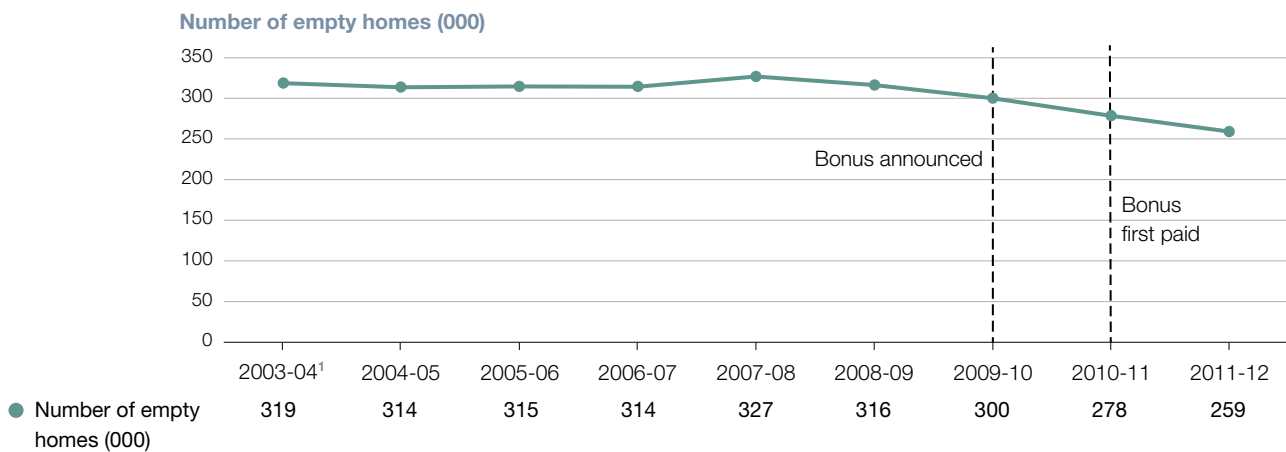
### Empty homes brought back into use

**2.30** We found some evidence that the Bonus is incentivising local authorities to bring empty homes back into use. A downward trend in the number of empty homes, which began in 2008, is being maintained (**Figure 15** overleaf). Bonus allocations have been paid for approximately 56,000 empty homes brought back into use between October 2009 and September 2012, representing around 12 per cent of total net additions. Around two-thirds of the sample of 28 local authorities' empty homes strategies we reviewed refer to the Bonus as an incentive to bring empty homes back into use.

**Figure 15**

## Long-term empty homes, 2003 to 2012, England

Since the Bonus was introduced the downward trend in the number of empty homes has continued

**NOTE**

1 Data refer to period from October to end of September.

Source: Department for Communities and Local Government, table 615, "Vacant dwellings by local authority district: England, from 2004"

**2.31** Local authorities cited examples of their actions to reduce the number of empty homes. For example, they have protected the posts of empty homes officers who identify empty homes and plan how to bring them back into use. They suggested that these actions would not have occurred, and efforts to tackle empty homes would have been weaker, if the Bonus had not included payment for empty homes brought back into use.

**2.32** Several local authorities have increased actions to clean their empty homes data after the Bonus was introduced. Where occupied homes are misclassified as empty, the council tax record is corrected. The correction prompts a Bonus payment, just as it would for an empty home brought back into use. As a result, some Bonus payments are for homes that were not really empty. The Department checked figures reported in the third year of the Bonus. It successfully challenged the empty homes data for seven local authorities, resulting in reducing their Bonus allocations for 2013-14 by £1.7 million in total.

## Using Bonus allocations

**2.33** Bonus allocations are not ring-fenced. Local authorities can decide how to spend the money, and are using it in different ways. Many are using the Bonus as core revenue funding, to offset cuts in the Formula Grant, or to continue to provide discretionary services they might otherwise have reduced. We noted examples of the Bonus being used creatively for housing initiatives (**Figure 16**). Around 43 per cent of respondents from district, unitary and London and metropolitan borough councils in the Department's first annual survey said the Bonus helped to promote the benefits of new housing to their communities. A survey of local authorities by *Inside Housing* magazine found that 21 per cent were using Bonus payments to support housing development, through housing, infrastructure or planning projects.

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### Figure 16

#### Examples of housing-related use of the Bonus by local authorities

##### Local authorities have used the Bonus in different ways

| Local authority                    | Use of Bonus   |
|------------------------------------|--|
| Sheffield City Council             | Set up an empty-homes team that returned over 600 empty homes to use in its first year; improved neighbourhoods and attracted developers by demolishing buildings that were eyesores.  |
| Pendle Borough Council             | Helping first-time buyers obtain mortgages by providing guarantees, to enable a local building society to provide 95 per cent mortgages at a 75 per cent mortgage rate; servicing the debt charges on £1 million borrowed to bring around 20 properties back to habitable standard for sale. |
| South Oxfordshire District Council | Gave £250,000 to a parish council towards constructing a new £1.1 million multi-use pavilion (including a community library, cafe, youth room and community hall) to help to integrate residents from a new housing development into the existing community.                                 |
| Leicestershire County Council      | Used all its Bonus in 2011-12 and most in 2012-13 to support the building of rural affordable homes.   |

*Source: National Audit Office case study visits and [www.emcouncils.gov.uk/Affordable-Housing-Case-Studies/use-of-new-homes-bonus-to-support-rural-affordable-housing-in-leicestershire/11945](http://www.emcouncils.gov.uk/Affordable-Housing-Case-Studies/use-of-new-homes-bonus-to-support-rural-affordable-housing-in-leicestershire/11945)*

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# Appendix One

## Our audit approach

**1** We examined whether the Bonus is meeting its objective to incentivise local authorities to encourage new homes locally. We reviewed:

- the design of the Bonus scheme;
- its early impact on behaviour and new home creation; and
- whether implementing the Bonus has had any wider consequences.

**2** We used an analytical framework with evaluative criteria to assess what 'good' would look like in the design, impact and wider consequences of the Bonus, within constraints.

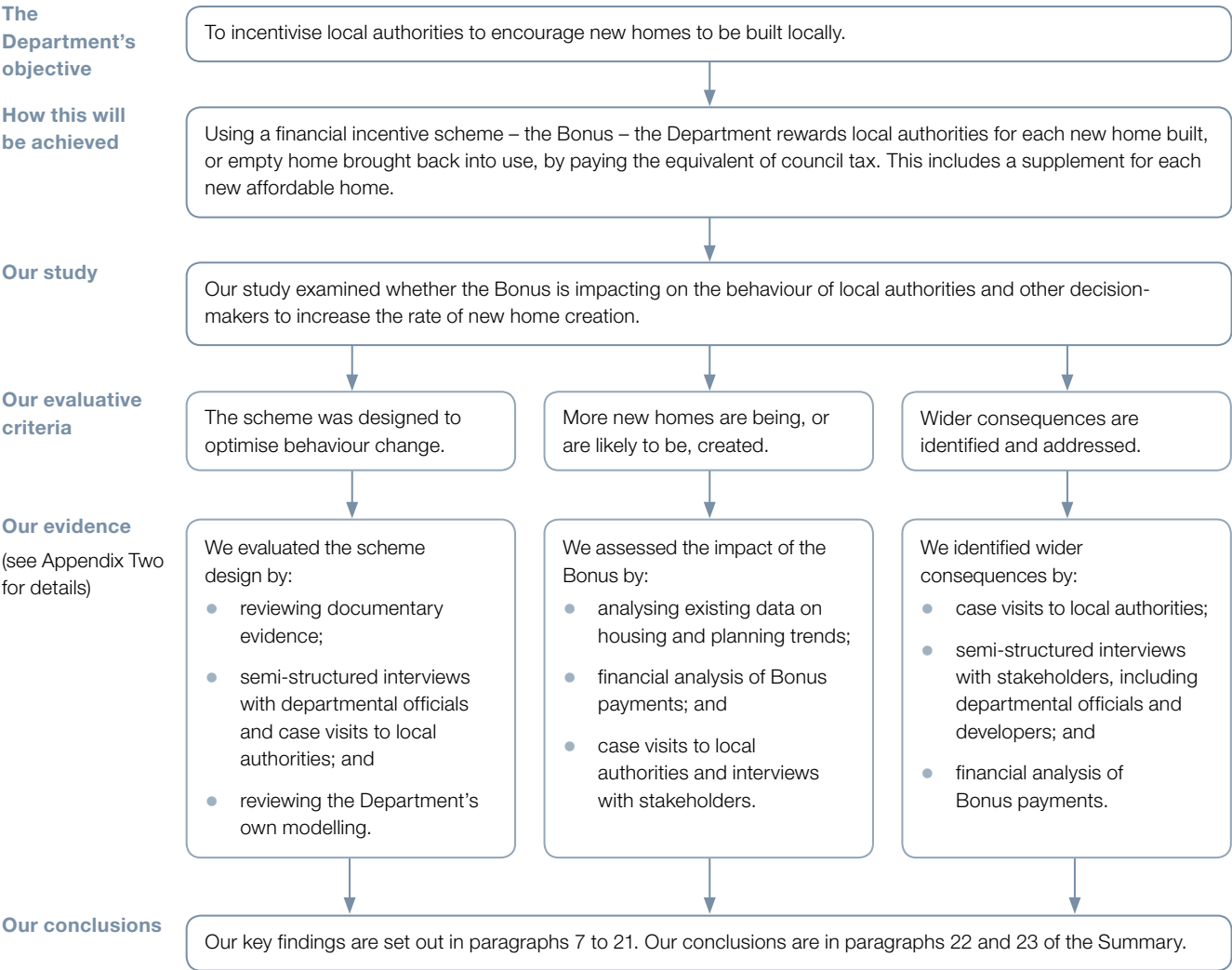
**3** We established the amount of Department funding, and its distribution among local authorities with different characteristics.

**4** We assessed the extent of behaviour change and new home creation, and identified any wider consequences.

**5** Our audit approach is summarised in **Figure 17**. Our evidence base is described in Appendix Two.



**Figure 17**  
Our audit approach



# Appendix Two

## Our evidence base

- 1 We collected and analysed data between November 2012 and February 2013. We used this data to reach independent conclusions on whether the New Homes Bonus is incentivising local authorities to change their behaviour to encourage new homes to be created locally. Our audit approach is outlined in Appendix One.
- 2 We examined whether the Department designed the scheme to change local authorities' behaviour, and that of other decision-makers. We took the following actions:
  - We reviewed existing evidence, including policy documents, consultation responses and academic literature, to understand how the Bonus evolved, and the context in which the scheme was developed.
  - We conducted semi-structured interviews with the Department and case visits to local authorities to understand the consultation process and issues arising from it. We used qualitative analysis to identify recurring themes and triangulated these themes with other analyses.
  - We reviewed the Department's modelling in detail to verify its estimates of the Bonus' potential impact on home creation and local authority finances.
- 3 We evaluated the evidence for changing local authority behaviour and whether more new homes were built, or are likely to be built, because of the Bonus, by:
  - analysing data collected by the Department, Valuation Office Agency and others. We identified trends in new home creation and tested their association with Bonus payments;
  - linking data sources<sup>20</sup> to understand local authorities' contexts and responses to the Bonus. They included: the number of dwellings in each council tax band from the Valuation Office Agency; the council tax base; data on local authorities' planning application decisions; Bonus payments; and the Department's internal surveys of local authorities' opinions on the Bonus' effectiveness; and
  - seeking evidence on whether we could directly attribute changes to the Bonus, through our case visits to local authorities and interviews with stakeholders. We supplemented this with our review of a sample of 100 local authorities' medium-term financial strategies.

20 Many of the data sets we used are available from: [www.gov.uk/government/organisations/department-for-communities-and-local-government/about/statistics](http://www.gov.uk/government/organisations/department-for-communities-and-local-government/about/statistics). We used census data on the size of local populations, available at: [www.ons.gov.uk/ons/rel/census/2011-census/population-and-household-estimates-for-england-and-wales---unrounded-figures-for-the-data-published-16-july-2012/rft-1-2-ew-hh01.xls](http://www.ons.gov.uk/ons/rel/census/2011-census/population-and-household-estimates-for-england-and-wales---unrounded-figures-for-the-data-published-16-july-2012/rft-1-2-ew-hh01.xls).

**4** We examined whether any wider consequences have been identified and whether appropriate actions are being taken by:

- visiting 14 local authorities and the Greater London Authority to understand the practical issues with the Bonus scheme locally, the implementation and impact of the Bonus, and its relationship with other policies influencing local authority behaviour. We interviewed local authority officers and councillors; and
- carrying out 16 semi-structured interviews with stakeholders, both individuals and representatives of organisations in the housing and planning sectors, including developers. We also spoke with departmental officials. We used qualitative analysis to identify recurring themes and triangulated these themes with other analyses.

**5** Our financial analysis, and our review of a sample of local authorities' medium-term financial strategies and empty homes strategies, gave us evidence about how the Bonus scheme is operating.



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