Update on Council Tax Freeze Grant and New Homes Bonus

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Summary

The Spending Round in June announced a further two years of Council Tax Freeze Grant (CTFG). The Autumn Statement in December contained an announcement on the New Homes Bonus (NHB) in 2015-16. These were followed by the publication of provisional NHB allocations for 2014-15 and the provisional Local Government Finance Settlement (LGFS).

With councils setting Council Tax this month and the second year of Business Rate Retention (BRR) starting in a few months, it seems an opportune time to provide an update on CTFG and NHB and summarise the payments to date. This briefing also explains the sources of this funding and their interaction with the BRR system.

This briefing is relevant to finance lead members, treasurers, strategic finance officers, and members and officers interested in the financial implications of housing development, in all tiers of local government.

Briefing in full

The present government has provided a number of grants to local authorities as “incentives” to carry out particular policies. Two of these relate to the tax base for Council Tax: CTFG and NHB. Both grants have seen a lot of changes over the course of the Parliament.

The situation was greatly complicated by the introduction of the BRR system in 2013-14. In the BRR system, Formula Grant (which is renamed Formula Funding), is brought together with a number of other grants. Collectively, they are referred to as Start-Up Funding Allocation (SUFA) in 2013-14, and Settlement Funding Allocation (SFA) in subsequent years. This funding is provided to councils:
partly through their business rate baseline (uprated for RPI and plus their top-up or minus their tariff), and

partly through Revenue Support Grant (RSG).

CTFG and NHB both interact with the BRR system in a complex way, as described below.

This section gives some basic facts and figures about each year's allocation of these grants. For each grant, we summarise the key national totals in a table at the end of the relevant subsection.

**Council Tax Freeze Grant**

CTFG rewards councils for freezing Band D Council Tax, by paying them the equivalent of a set percentage of their Council Tax yield in a particular year.

In most cases, as we describe below, the grant relating to a particular year's freeze is paid annually from that year forward. This is because if the grant were just paid for one year, a council receiving it would still need to raise Council Tax the following year to make up for the shortfall. Effectively, this would simply delay the rise by a year.

We now look at each year's freeze in turn and describe the key facts and figures about the grant allocated to cover that freeze.

**2011-12**

*Spending Review 2010* set aside £0.7 billion from the Department for Communities and Local Government's main budget (known as “LG DEL” or “DCLG Main”) for the whole of the Spending Review period, for the grant relating to the 2011-12 freeze.

The grant was announced on 21 October 2010 and was equivalent to a 2% increase in the 2010-11 Council Tax. Every local authority took up the offer, resulting in a payout of £652.2 million.

As the allocations weren't known until each authority had set its Council Tax – that is, after the final LGFS – it was paid as an un-ringfenced Special Grant in 2011-12. In 2012-13, it was included in Formula Grant as a sum added on after damping. For local authorities, this change was purely cosmetic, but it meant that it was included in DCLG's budget for Formula Grant.

In 2013-14, with the introduction of the BRR system, the grant was taken out of Formula Grant/Formula Funding. For police authorities, it returned to being a separate grant, but for other authorities, it was kept within the new Start-Up Funding Allocation. This meant that from 2013-14 onwards, this funding is provided to councils through a combination of their business rate baseline, their tariff/top-up and RSG, as described above.
Grant funding to cover a freeze in 2012-13 was announced on 3 October 2011, with further detail on 14 November. This was equivalent to an increase of 2.5% of 2011-12 Council Tax (or 3% for police and fire authorities), but the grant was only for one year. Central Government accounted for this grant in 2011-12, putting aside £675.9 million to cover it. In the event, the total payout was £597.1 million.

Grant funding to cover a freeze in 2013-14 was announced on 8 October 2012. This was equivalent to an increase of 1% of 2012-13 Council Tax. £265.1 million was put aside to cover it, but the final payout was £181.3 million.

In its first year, this grant was paid as an un-ringfenced Special Grant. The LGFS Technical Consultation issued in July 2013 proposed rolling it into the Settlement Funding Allocation (SFA) from 2015-16. However, the provisional LGFS published on 18 December shows that it is actually being rolled in from 2014-15.

The Spending Round 2013 announced that there would be funding for a freeze in these two years. A DCLG press release issued on the same day stated that "Authorities that freeze or reduce their Band D Council Tax will receive a grant equivalent to a 1% increase on 2013 to 2014 Band D Council Tax levels". The precise details of these grants have yet to be decided – the full details of CTFG 2014-15 are expected to be agreed when Parliament reconvenes. Like the previous CTFGs, we can expect both of these to be provided as Special Grants in their first year, although they may get rolled into SFA at a later date.

### Summary table

<table>
<thead>
<tr>
<th>Year grant relates to</th>
<th>% rise equivalent</th>
<th>Amount - police</th>
<th>Amount - other</th>
<th>Amount - total</th>
<th>Year funding provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-12</td>
<td>2.5% of 2010-2011 CT</td>
<td>£58.8m</td>
<td>£593.4m</td>
<td>£652.2m</td>
<td>SG</td>
</tr>
<tr>
<td>2012-13</td>
<td>2.5% of 2011-2012 CT (3% for police &amp; fire)</td>
<td>£41.2m</td>
<td>£556.0m</td>
<td>£597.1m</td>
<td>-</td>
</tr>
<tr>
<td>2013-14</td>
<td>1% of 2012-2013 CT</td>
<td>£7.3m</td>
<td>£174.0m</td>
<td>£181.3m</td>
<td>-</td>
</tr>
<tr>
<td>2014-15</td>
<td>1% of 2013-2014 CT</td>
<td>Depends on take-up</td>
<td>Depends on take-up</td>
<td>Depends on take-up</td>
<td>-</td>
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<tr>
<td>2015-16</td>
<td>1% of 2013-2014 CT</td>
<td>Depends on take-up</td>
<td>Depends on take-up</td>
<td>Depends on take-up</td>
<td>-</td>
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New Homes Bonus
The New Homes Bonus was also introduced in 2011-12. Councils are paid for each new home built in their area for six years. There are additional payments for bringing empty homes back into use and for building affordable housing. Full details of the payments are given in the final scheme design and helpfully summarised in our briefing from 3 December.

In Spending Review 2010, £196 million was set aside for NHB payments in 2011-12 and £250 million for each of the subsequent years of the spending review period.

From the outset, it was assumed that for each of these subsequent years, additional funding would be needed to cover the payments to councils (see the “Comment” section below). This additional funding was found as follows.

2011-12
Payments totalled £199 million. The additional £3 million was accounted for as an update to the budget for the grant.

2012-13
Payments totalled £432 million. £176 million was taken in advance from top-slicing 2012-13 Formula Grant and the remaining £6 million from 2013-14 Formula Funding.

2013-14
Under BRR, the Government has adopted the practice of top-slicing the maximum amount they believe may be necessary, then repaying any funding that hasn't been paid out as NHB though an “adjustment grant”. In 2013-14, they took out £500 million, of which £418 million was paid out (together with the £250 million from the Spending Review). The NHB adjustment grant was therefore £82 million.

2014-15
When the 2013-14 LGFS was published, a draft LGFS for 2014-15 was also published. This showed a top-slice of £800 million. The LGFS Technical Consultation published in July also worked on the assumption that £800m would be top-sliced. However, the provisional LGFS for 2014-15 published on 18 December showed that the top-slice was actually £700 million. This was published two days after the provisional NHB allocations for 2014-15. These suggest that the total payout will be around £916 million, and the adjustment grant therefore around £34 million. However, the exact figures will not be known until the final allocations are confirmed, on or after 10 January.

Nationally, the provisional allocations show:

- 42,830 new affordable homes, down 26% on last year's total of 58,107;
- 132,988 other new homes, down 7% on last year's total of 142,484;
37,714 empty homes brought into use, up 110% on last year's total of 17,945.

2015-16 - LEPs

Spending Round 2013 proposed that in 2015-16, £400 million of NHB payments would be top-sliced for the use of LEPs, as part of a £2 billion Local Growth Fund. A consultation was launched in July on how this would be done. As reported in an LGiU policy briefing on 17 December, this proposal was not popular within local government.

The Autumn Statement announced that this policy would not be implemented, “except for £70 million for the London Local Enterprise Partnership, which is chaired by the Mayor of London”.

Summary table

<table>
<thead>
<tr>
<th>Year of refurbishment / completion grant relates to</th>
<th>Year funding provided</th>
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<tbody>
<tr>
<td>2011-12</td>
<td>£199m</td>
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<tr>
<td>2012-13</td>
<td>-</td>
</tr>
<tr>
<td>2013-14</td>
<td>-</td>
</tr>
<tr>
<td>2014-15 (provisional)</td>
<td>-</td>
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<tr>
<td>TOTAL NHB</td>
<td>£199m</td>
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</tbody>
</table>

Of which:

- funding set aside in SR 2010: £196m £250m £250m £250m
- additional funding: £3m £182m £418m £666m
- NHB Adjustment Grant: - - £82m £34m
- TOTAL NHB TOP-SLICE: - - £500m £700m

Comment

Council Tax yield can be increased either by increasing the rate at which Council Tax is set (Band D Council Tax), or by increasing the Council Tax base, or both. The award of CTFG depends on whether the Band D Council Tax is raised, while NHB allocations depend (mainly) on increases to the tax base. Formula Grant/Formula Funding contains an equalisation for ability to raise Council Tax, known as “resource equalisation”, as described below. With some years' CTFG becoming part of SFA and some NHB funded by top-slicing, there is a very complex interplay between Council Tax, CTFG, NHB and Formula Grant/SFA. In this section, we look more closely at some aspects of this interplay.
Council Tax Freeze Grant

The objective of CTFG is to reduce the burden on residents paying Council Tax. Funding for this must ultimately come from general taxation – from raising other tax yields and/or from savings in public spending. Given that each Government department's expenditure must be met from its own declining budget, this inevitably means that it comes at the expense of reductions in other local government funding.

The justification for using general taxation to relieve the burden of Council Tax is that some taxpayers will have serious difficulty in meeting rising Council Tax bills – particularly those who have properties in the high bands but low disposable income.

Initially, this policy was extremely successful in keeping down Council Tax – in its first year, every local authority froze its Band D rate. However, as NHB allocations show, local authorities are finding it difficult to expand their tax base. Consequently, tax yields are not keeping pace with expenditure pressures. This makes it more difficult each year for councils to afford to freeze their Council Tax, even with CTFG.

It is also getting harder to fund. Each year, the Government needs to continue to fund previous freezes (apart from 2012-13 - see above) and find further money for a new freeze. The 2013-14 CTFG and subsequent years' CTFGs are accounted for within LG DEL, and along with 2011-12 CTFG they are being maintained in cash terms. However, LG DEL is not just falling in line with Spending Review 2010, but has received further cuts. This inevitably means other grants being cut by more than they would otherwise be, pound for pound.

This is particularly clear in 2014-15. In 2014-15, SFA contains both 2011-12 CTFG and 2013-14 CTFG, which are frozen within it. Therefore to achieve the 1% reduction required by the Budget 2013, other components of SFA need to be cut more radically.

As long as CTFGs are separately identifiable within SFA, this protection is likely to remain. For authorities which are concerned about keeping this funding, it is worth bearing in mind that this may well cease at the first “reset” of the BRR system, which the Government intends to hold in 2020.

Councils considering freezing their Council Tax will individually weigh up their desire to protect their residents from a rise against the loss in income net of CTFG. However, it is worth considering the cumulative effect. While the reduction in SFA caused by any one authority being allocated CTFG may be relatively small, the cumulative effect of most authorities taking it can reduce the other components of

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1 We need to be careful with phraseology when talking about the sources of funding for new grants. Given that the LG DEL is falling year on year, talking about new freeze funding being “taken from” particular existing grant budgets could lead to confusion. It is therefore best to stick to this sort of statement, about what is likely to have happened to other grants had a policy not been implemented in a given year.
SFA considerably. This will impact most on authorities which rely most heavily on these other components, such as Formula Funding.

Regarding CTFG 2014-15, it is most concerning that the full details have yet to be announced. This means that local authorities are setting their Council Tax for 2014-15 without a full understanding of the grant they may receive if it is frozen.

New Homes Bonus

The motivation for introducing the New Homes Bonus is often not clearly understood. In theory, councils are already “rewarded” for new homes being built: it adds to the tax base and therefore results in greater Council Tax yields. However, areas with higher property values have a greater ability to raise Council Tax and there was a “block” within Formula Grant which equalised for this – basically, a deduction from Formula Grant pro rata to tax base. This meant that councils which were not on the damping floor (sometimes called “scaled” authorities) lost much of the increase in yield through the equalisation. This is explained in the House of Commons Library Standard Note SN/SP/5724.

The purpose of NHB was to ensure that all councils were rewarded for new homes:

• regardless of whether they were “scaled” or “floor” authorities;
• regardless of the level that they set Council Tax at;
• with additional payments for returning empty homes to use, or building affordable homes.

The funding set aside in Spending Review 2010 was taken from the budget previously used for Housing and Planning Delivery Grant (HPDG), which it replaced. NHB is widely seen as more transparent and simpler to administer than HPDG.

The increasing tax base would then increase resource equalisation, creating a saving for DCLG on the Formula Grant budget, which could be ploughed back into NHB – essentially, a revolving fund.

Under a system where there are annual allocations of Formula Grant, this appears an efficient use of funding.

However, under the BRR system, there is no year-on-year increase in resource equalisation. Councils retain all increases in Council Tax yield.

2 Nonetheless, “floor” authorities still received a greater “reward” than “scaled” authorities, as they got NHB and increased Council Tax yield, without losing any to equalisation. It might have been possible to deal with this by taking resource equalisation outside damping, although this may have introduced greater volatility into the system for some authorities, or had other unintended consequences.
Consequently, DCLG has to find increasing amounts each year to fund NHB\(^3\). This is top-sliced from RSG, so effectively councils with new homes are paid twice – once from Council Tax and once from NHB – with the latter being at the expense of other local authorities. Councils have to achieve an “above average” performance to get a net benefit from NHB – although, as pointed out in the 3 December policy briefing, the system design favours some councils above others (for example, shire districts above shire counties).

The interplay between NHB and BRR also causes confusion for finance officers. For example, to get like-for-like comparisons between SFA for two different years, you must remember to add on the NHB Adjustment Grant.

Nonetheless, local authorities do find it useful to have a funding stream that is as predictable as NHB. It assists long-term planning for strategic growth. In theory, future NHB can also be borrowed against, making greater investment in housing possible (this could be viewed as a form of “Tax Increment Financing”).

The level of concern expressed about the potential deduction for LEPs is therefore unsurprising. Local authorities outside London are likely to be grateful for the change of heart announced in the Autumn Statement. London Boroughs, on the other hand, may well view it as unfair that they continue to face a large proportion of their NHB being taken away.

As mentioned in the 3 December policy briefing, NHB is currently under evaluation. In this context, the new provisional allocations make interesting reading. They suggest that councils are still finding it difficult to promote new build, including affordable housing, but are making increasing progress with returning empty homes to use. The concerns of the National Audit Office as to whether NHB leads to increasing volumes of new build should therefore be taken seriously, and it will be interesting to see the results of DCLG’s evaluation later this year.

For more information about this, or any other LGiU member briefing, please contact Janet Sillett, Briefings Manager, on janet.sillett@lgiu.org.uk

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3 This may change in the seventh year of the scheme – it covers six years of new homes, so in the seventh year, the payment for the first year drops out. Whether the total cost of the scheme then goes up or down depends on whether year seven payments are more than year one payments. If the costs do continue to rise, they will at least do so more gradually.