



## Policy and Resources Committee 15 February 2016

### Response to DCLG technical consultation on New Homes Bonus Scheme

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#### Purpose of report

This report provides information on the council's proposed response to the technical consultation "New Homes Bonus: Sharpening the Incentive" by the Department for Communities and Local Government. The consultation seeks views on options for changes to the New Homes Bonus to better reflect authorities' delivery of new housing and reducing the number of years in which current and future payments are made. This consultation closes on 10 March 2016.

#### Attachment(s):

Appendix A – Draft Response

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#### 1. Background

- 1.1. When New Homes Bonus was first introduced in 2011, the Government's intention that it would create a powerful, simple, transparent and permanent incentive, which rewards local authorities that deliver sustainable housing development.
- 1.2. The scheme was intended to incentivise local authorities to increase housing supply by rewarding them with a New Homes Bonus (NHB) payment equal to the national average for the council tax band on each additional property. The payments would be made for 6 years as non-ringfenced grant along with an additional payment for affordable homes. The Government also rewarded local authorities for bringing empty homes back into use and providing affordable homes in the form of Gypsy and Traveller pitches.
- 1.3. Payments are currently calculated by measuring the change in dwellings on council tax valuation lists, meaning that demolished properties and dwellings becoming empty will also affect the level of bonus received.
- 1.4. The council has benefitted from over £6m in New Homes Bonus payments since the scheme started, which can be broken down as follows:

| 2011/12 | 2012/13 | 2013/14   | 2014/15   | 2015/16   |
|---------|---------|-----------|-----------|-----------|
| 355,008 | 906,055 | 1,217,971 | 1,524,818 | 2,017,269 |

- 1.5. The council is also due to receive a further £2,626,043 in 2016/17, which was announced as part of the provisional financial settlement in December 2015 along with the consultation paper "New Homes Bonus: Sharpening the Incentive".
- 1.6. The consultation has been announced as the Government now believes it is appropriate to consider how the incentive element of the NHB can be tightened alongside possible changes to respond to the move towards retention of business rates and the potential for further devolution of powers and responsibilities to local authorities. A full draft of the consultation document can be found at <https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation>

## 2. Key Issues to Consider

- 2.1. The consultation sets out a variety of options for increasing the focus of the NHB on delivery of new homes and freeing up resources to be recycled within the local government settlement to support authorities with particular pressures, such as adult social care.
- 2.2. The options on which views are being sought are summarised below.

### **Withholding NHB payments from areas where an authority does not have a Local Plan in place**

The Government is seeking views on a proposal that local authorities who have not submitted a Local Plan prepared under the 2004 Act should not receive NHB for the years that the plan is not in place. Alternatively, they are proposing that if a Local Plan is published but not yet submitted to the Secretary of State for examination then 50% of the NHB will only be paid.

### **Decrease NHB payments in circumstances where planning permission for a new development has only been granted on appeal**

The Government is proposing to reduce new in-year allocations payments to individual authorities where residential development is allowed on appeal. The consultation seeks views on 50% or 100% reduction but is also interested in views on other percentages that could be applied.

### **Adjusting the NHB payment to reflect estimates of 'deadweight'**

The Bonus is currently paid on all new housing regardless of whether or not it would have been built without an incentive. Government believes that removing this 'deadweight' from the calculation of NHB would allow payments to be more focussed on local authorities demonstrating a stronger than average commitment to growth. The consultation is proposing a baseline of 0.25% where NHB payments would only be made to housing above that baseline.

### **Proposals for reductions in the number of years for which NHB is paid from the current 6 years to 4 years.**

The consultation includes options for reducing payments from 6 years to 4 years but is also considering whether to reduce payments further to 3 or 2 years.

- 2.3. The Government is not proposing changes to the 2016/17 payments, but does specify that reductions in payments will be necessary in order to stay within the new funding envelope (2015 Spending Review) from 2017/18 onwards. Their preferred option is to make savings of at least £800 million, which can be used for social care; that equates to approximately 50% of the overall NHB budget for 2016/17.
- 2.4. The council has included the following figures in the MTFS for NHB, which include assumptions around the consultation announcements. However, until the outcome is known there is a risk that the position could be worse depending on how the £800 million savings are applied:

|                                 | 2016/17    | 2017/18    | 2018/19    | 2019/20    |
|---------------------------------|------------|------------|------------|------------|
| MTFS (Modelled on consultation) | £2,626,043 | £2,121,062 | £1,903,372 | £1,811,993 |

## 3. Draft Consultation Response

- 3.1. A draft response for members to consider is attached as **Appendix A**.

#### 4. Equality and Diversity Implications

4.1. There are no equality and diversity implications for this council arising from the draft response.

#### 5. Legal Implications

5.1. There are no known legal implications arising from the draft response.

#### 6. Risk Management

6.1. There are no risks arising from responding to the consultation. However, any subsequent changes to the scheme will have a financial risk as outlined in section 7 below.

#### 7. Financial Implications

7.1. There are no financial implications for this council in responding to the consultation request. However, any subsequent changes to the scheme are likely to have a significant impact on the council's finances as outlined in 2.4 above.

#### 8. Corporate Outcomes

8.1. This report links to the following Corporate Outcomes:

- Good Quality of Life - Sustainable

The outcome of the consultation could significantly impact the financial sustainability of the Council with regards to our ability to invest NHB into community projects

- Good Value for Money

The outcome of the consultation could jeopardise the overall financial stability of the council

#### 9. Recommendations

9.1. That members:

- a) note the financial implications of the possible changes outlined in the consultation
- b) consider and approve the draft response at Appendix A
- c) delegate authority for any changes to the response to be made by Chief Finance Officer in consultation with Chair and Vice Chair of Policy and Resources Committee.

*(Reason: To enable the council's views to be considered by members in response to the Government's proposals as set out within the consultation paper)*

|   |                       |           |  |           |  |
|---|-----------------------|-----------|--|-----------|--|
| <b>Legal</b>  | Power:                |           |  |           |  |
|   | Other considerations: |           |  |           |  |
| <b>Background Papers:</b>   |                       |           |  |           |  |
| <b>Person Originating Report:</b> Glenn Hammons, Chief Finance Officer & Section 151 Officer,<br>☎ 01832 742267 ✉ ghammons@east-northamptonshire.gov.uk |                       |           |  |           |  |
| <b>Date: 03.02.2016</b>   |                       |           |  |           |  |
| <b>CFO</b>  |                       | <b>MO</b> |  | <b>CX</b> |  |

## **New Homes Bonus consultation response**

### **Question 1**

**What are your views on moving from 6 years of payments under the Bonus to 4 years, with an interim period for 5 year payments?**

We believe that the current system works well and should remain as it is. The proposal to revise the system penalises authorities that have delivered the most housing. This seems inequitable and is certainly not *sharpening* the incentive – it is just *shrinking* the incentive.

We have embraced the Government's growth agenda and, as a result, have seen significant housing growth and the bringing back into use of empty properties.

The New Homes Bonus associated with this type of growth has been incorporated into our financial plans and medium term financial strategy. Any changes to the period of payment will have a detrimental impact on the Council's finances.

The money has been used for Economic Development activity and investment in the Voluntary Sector; payments are made regularly to Communities that have had housing growth for use on projects for the Community promoted by the Community.

The Government made it clear when the original scheme was launched that it would expect communities that faced housing growth to receive some of the funding and we have delivered on that commitment.

If funding is pared back as proposed, all of this investment in the economy, the support to the voluntary sector and the Communities that have taken on growth will also have to be pared back or stopped completely in order to ensure we continue to have a balanced budget.

We also question whether any awards made to the Council from 2011-12 to 2015-16 can legally be altered given that when they were confirmed, alongside the confirmation of final settlement details, a letter from the Government was received saying the payments would be made for six years. This Council reserves its position on whether it will seek to take action on this particular point.

Clearly, if the Government is determined to change the payment period, then the preference of this Council would be to move to the four year scheme with an interim five year payment period.

### **Question 2**

**Should the number of years of payments under the Bonus be reduced further to 3 or 2 years?**

Based on the comments given in Question 1 this Council is clearly against watering down or weakening the incentive by moving to just a three or two year scheme. Taking this approach does not give any real incentive to pursue the growth agenda as the additional cost burden that comes with increased housing is only compensated for a relatively short period of time compared to the current scheme.

### **Question 3**

**Should the Government continue to use this approach? If not, what alternatives would work better?**

It is the view of this Council that the current calculation used is the most equitable.

Using band D equivalent growth is easy to understand and is also consistent with how the taxbase is calculated.

Generally larger houses will be banded at the higher rate and will have more occupants than lower banded properties. The costs of providing services to these houses will therefore be greater and therefore taking a Band D equivalent approach is a sound rationale to use and should not be altered.

#### **Question 4**

**Do you agree that local authorities should lose their Bonus allocation in the years during which their Local Plan has not been submitted? If not, what alternative arrangement should be in place?**

This Council has an adopted local plan and therefore supports the methodology which retains payments for a six year period and penalises authorities that do not have an adopted local plan.

This is consistent with our response to question 1.

#### **Question 5**

**Is there merit in a mechanism for abatement which reflects the date of the adopted plan?**

This authority does not believe there is merit in such a mechanism.

It is accepted that the Government is trying to 'sharpen the incentive' but the scheme should also remain easy to understand and implement and should not become overly complicated or administratively burdensome.

For these reasons the Council is against this mechanism for abatement. Payments should be made as long as a Council has an adopted local plan. This makes the incentive sharper and clearer and avoids confusion.

#### **Question 6**

**Do you agree to this mechanism for reflecting homes only allowed on appeal in Bonus payments?**

The consultation document is not clear in relation to this issue. We believe that the government's preferred option as set out in paragraph 3.21 is to use the detail on successful planning appeals to make a New Homes Bonus deduction in the year of the appeal success rather than when the houses are built out.

This is not justifiable as councils would have a deduction from their new homes bonus payment for houses (where planning permission was granted at appeal) for which they were yet to receive new homes bonus payments.

The position set out in paragraph 3.23, whilst not being the Government's preferred option, is more equitable.

This would ensure that when a new house is built which was subject to a planning permission granted on appeal the new homes bonus for that particular house would not be received upon completion and occupation of the house.

This has to be the right approach rather than make an arbitrary deduction on houses where planning permission is granted on appeal but for which the NHB has not yet been (and may never be) received.

### **Question 7**

**Do you agree that New Homes Bonus payments should be reduced by 50%, or 100%, where homes are allowed on appeal? If not, what other adjustment would you propose, and why?**

We do not believe any reduction is appropriate and propose this approach. There are many reasons for housing to be allowed on appeal. If built, the houses still have local service consequences that the New Homes Bonus contributes to addressing.

As an example, if you have a local plan and you follow it and you get an application outside the allocated areas which is refused for good reason, to have the threat of loss of £1m as well renders the local plan useless. The potential loss of cash could in these circumstances have a disproportionate material weight in members' minds. The government must be resolute in getting inspectors to support the local plan.

However, should the Government insist on financially penalising new houses where the permission was granted on appeal then we would wish for this penalty to be as low as possible.

It is also important that any deduction is taken when the houses are completed and occupied and therefore when the NHB payment would have been made on those houses. This is consistent with our response to question 6.

### **Question 8**

**Do you agree that reductions should be based on the national average Band D council tax? If this were to change (see question 2) should the new model also be adopted for this purpose?**

Again, the meaning of this question is not clear.

If it is just asking whether the Band D equivalent is the appropriate calculation method, then we support that, as set out in our answer to question 3 (not question 2 as stated in the consultation paper).

However, we do not think that this should be used as a 'broad brush' estimate of how much NHB to deduct because the data isn't easily available to do anything else.

In fact, and in line with our responses to questions 6 and 7, we do not support the deduction being taken ahead of the houses being completed and occupied as councils would be having deductions of NHB being taken on payments which had not yet been received, which is patently wrong.

Making the deduction ahead of completion and occupation using a proxy or estimate (if this is what the question is asking) just unnecessarily complicates the matter further.

### **Question 9**

**Do you agree that setting a national baseline offers the best incentive effect for the Bonus?**

No. The bonus should be paid in relation to numbers of houses that are built come what may. It is an incentive to reward housing growth and therefore all housing growth should count. To bring in an arbitrary baseline is simply a mechanism to reduce payments and actually penalises authorities that have been growing at the greatest rate during the recession. Authorities that grow at the greatest rate would have the biggest reduction in NHB, which is nonsensical. This Council thinks that setting a national baseline provides no incentive at all for growth.

#### **Question 10**

**Do you agree that the right level for the baseline is 0.25%?**

See response to question 9. This Council believes that the right level is 0%.

#### **Question 11**

**Do you agree that adjustments to the baseline should be used to reflect significant and unexpected housing growth? If not, what other mechanism could be used to ensure that the costs of the Bonus stay within the funding envelope and ensure that we have the necessary resources for adult social care?**

No, we do not believe there should be a reduction to reflect significant and unexpected housing growth. 'Significant and unexpected' housing growth is not defined but it is assumed that it means the cost of the scheme exceeds the Government's budget set for the scheme.

This consultation paper is supposed to be about sharpening the incentive, which should include making the financial incentive greater for those authorities embracing the Government's growth agenda.

It would be wrong if the scheme sharpened the incentive so much that Government then had to use artificial baselines to bring back Government spend within available budget. The additional economic benefit of increased housing growth and regeneration are well known and if local authorities deliver and exceed the Government's agenda (and deliver all the benefits that go with that) they should be rewarded, not penalised.

This Council is against the setting of baselines as set out in our response to questions 9 and 10 and certainly do not agree that baselines should then be adjusted to restrict payments made to local authorities in the event that Councils exceed the expectation of housing delivery and growth set by the Government.

#### **Question 12**

**Do you agree that the same adjustments as elsewhere should apply in areas covered by National Parks, the Broads Authority and development corporations?**

We believe that our comments made throughout this consultation exercise should be considered in the formulation of the revised scheme.

However, once the scheme is finalised we believe that it should be applied consistently across all areas including those covered by the National Parks Authorities and the Broads Authority.

#### **Question 13**

**Do you agree that county councils should not be exempted from adjustments to the Bonus payments?**

We agree that County Councils should not be exempted from adjustments to the bonus payments. In line with the response to question 12, the revised scheme, once determined, should be applied consistently to all the local and public authorities it affects.

#### **Question 14**

**What are your views on whether there is merit in considering protection for those who may face an adverse impact from these proposals?**

We believe that there is merit in considering protection but it should not disproportionately penalise those authorities that have delivered against the Government's growth agenda. The scheme should be designed so that authorities that have delivered the greatest housing growth gain the greatest financial reward.