

**REPORT TO THE SCRUTINY PANEL for RESOURCES
MEETING OF 8th DECEMBER 2011**

Status: Discussion
Title: Policy for use of New Homes Bonus (NHB)
Originator: Kamal Mehta, Deputy Chief Executive
Where from: Management Board
Where to next: Executive

Objective: To get an understanding of the New Homes Bonus Scheme and the proposed policy for its use.

1. Outcome sought from Panel
 - 1.1 The Scrutiny Commission has requested a report on the New Homes Bonus Scheme.
 - 1.2 To get an understanding of the New Homes Bonus Scheme and to note the proposed policy for the use of the Bonus as resolved for consultation by the Executive at its meeting on 7th November.
- 2 Background
 - 2.1 The New Homes Bonus Scheme came into operation from 2011/12. At Annex A is the report considered by the Executive on 7th November 2011 which sets out the background and the design of the scheme.
 - 2.2 The report also proposes a policy for the use of the Bonus for the 2012/13 year amount to be received over a six year period.
- 3 Points for discussion
 - 3.1 Members consider and discuss the report at Annex A.
- 4 Equality Impact Assessment Implications/Outcomes (attach completed EIA)
 - 4.1 None arising from this report
- 5 Impact on Communities

- 5.1 None arising from this report. The report at Annex A includes commentary on this heading.
- 6 Legal Issues
- 6.1 None arising from this report. The report at Annex A includes commentary on this heading.
- 7 Resource Issues
- 7.1 None arising from this report. The report at Annex A includes commentary on this heading.
- 8 Community Safety Implications
- 8.1 None arising from this report. The report at Annex A includes commentary on this heading.
- 9 Carbon Management Implications
- 9.1 None arising from this report.
- 10 Risk Management Implications
- 10.1 None arising from this report.
- 11 Consultation
- 11.1 None arising from this report.
- 12 Background Papers
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Previous report(s): None

Information Issued Under Sensitive Issue Procedure: ~~Y~~/N

Annexes:

A. Paper No. 8 Report to the Executive Meeting of 7th November 2011

ANNEX A

PAPER NO. 8

REPORT TO THE EXECUTIVE MEETING OF 7th November 2011

Status: Decision
Title: Policy for use of New Homes Bonus (NHB)
Originator: Kamal Mehta, Deputy Chief Executive
Where from: Management Board
Where to next: Implementation

1 Purpose of the Report

- 1.1 To explain the new NHB scheme and for the Executive to consider the policy it wishes to adopt to consult on for the NHB to be received for the 2012/13 Relevant Year.
- 1.2 The background and key aspects of the NHB scheme is set out in Appendix A.

2 Recommendations:

- 2.1 **The Executive notes that nationally the NHB is funded by the government by top slicing the forecast national business rates total that forms part of the funding formula of local government meaning and that it is not new money. The NHB is effectively being funded by taking away a sum that would have been paid to Councils in their annual grant settlement and is being redistributed under the NHB scheme as a general grant (i.e. not ringfenced for any particular or specific purpose in terms of its use.)**

Policy Proposal for Consultation

- 2.2 **In the context of 2.1 above and in line with paragraph 5.2.1 below, the Executive sets aside and reserves the whole of the NHB for the 2011/12 Relevant Year of £3.047m (to be received over six years commencing 2011/12 at £508k per year) to support the General Fund revenue budget in view of the fact that the NHB is being funded by the government by top slicing local government funding nationally;**
- 2.3 **That Policy Option C in paragraph 5.2.2 for the use of the NHB in respect of the 2012/13 Relevant Year only (to be received over six years commencing 2012/13.) is adopted for consultation;**

- 2.4 That the Council recognises the lack of capacity to implement, administer and manage the potentially significant sums and programmes that may result from the New Homes Bonus. The Council therefore considers an administration and management allowance from the New Homes Bonus of between 8% and 10%.**
- 2.5 The Executive considers the timetable for setting and implementing the New Homes Bonus Policy as discussed in section 5 of this paper and particularly the timetable set out in paragraphs 13.3 and 13.4 below regarding consultation on the proposed policy with a report back to the Executive to consider the final recommendations to Council.**
- 2.6 The Executive considers whether it wishes to request the Scrutiny Commission to include on its work plan for 2012/13 a review and development of a policy on bringing derelict and empty homes back into use.**

3 Summary of Reasons for the Recommendations

- 3.1 The NHB is a new system of reward grant funding that the government has introduced from 2011/12. The sums involved could be significant depending on the increase in housing in the District in the future. The council therefore should have a policy on how it will manage the NHB. This report sets out the policy options and makes a recommendation on the preferred option.**
- 3.2 Depending on the year on year changes in the council taxbase which is the measure by which the government will determine the NHB for each authority under the scheme, the amount of NHB can be significant. However bearing in mind that it is not new money overall but what should have been distributed to local authorities through the annual formula grant settlement it is therefore important that the Council has a policy on the use of the NHB for the future commencing from the 2012/13 Relevant Year, i.e. Year 2 of the NHB scheme.**

4 Impact on Communities

- 4.1 The suggested policy on the use of the NHB relating to the year 2012/13 Relevant Year i.e. the NHB relating to the taxbase change between October 2010 and 2011 will have an impact on the communities in the district.**
- 4.2 If the change between October 2010 and October 2011 in the council taxbase is positive then the Council will receive NHB in 2012/13 which if the recommended option is adopted will have a positive impact on the communities in the District as set out in Option C in paragraph 5.2.2 below.**
- 4.3 If there is no change or there is a reduction in the council taxbase then there is a negative impact on the whole community in the form of the top slice of formula grant funding lost to the NHB nationally.**

5 Key Facts

5.1 **Harborough's Position**

5.1.1 The government published the final allocations of the grant for 2011/12 in a Grant Determination. The Council will receive a total of £507,757 in 2011/12. The six year total for the relevant year (2011-12) is £3,046,541.

5.1.2 Each year the payment of the allocation will be spread over the year as it will be paid with Revenue Support Grant which is paid on a monthly basis. Therefore, it is important to recognise this in term of any large spending decisions that are made in reliance of the allocation for the same year.

5.1.3 The total NHB as set out by the government in the final Scheme is split 80% to HDC and 20% to the County Council. Each authority will receive its share directly from the government. Therefore, the amount allocated to HDC is its own and does not include the County Council's 20% allocation.

5.1.4 As illustrated in the table in paragraph 5.4.4 below, each year the payments will increase for the next six years after which they will begin to taper off as each six year cycle comes to an end. This should be taken into account in the medium and long term strategic planning. The NHB is a consequence of not only planning decisions in terms of provision of new homes and particularly affordable homes but also regeneration of derelict or hard to let properties and bringing into use empty properties. Therefore, as an authority there are a number of policy strands in respect of the Council's strategic housing remit that need careful consideration over the next six years.

The Executive might wish to consider requesting the Scrutiny Commission to include in its work plan the review and development of a policy for bringing derelict and empty properties back into use. There are currently around 420 empty properties in the District.

5.1.5 It is important to understand that the government has only fully funded the scheme for 2011/12 (this financial year.) Beyond that for the duration of the Spending Review period (2012-13 to 2014-15) the government has allowed for £250 million per annum for the scheme. The government estimates that the total cost of the scheme will increase to £1 billion by year six. The additional amount over the £250 million is to come from the business rates element of the Formula Grant which is the annual revenue support grant to local government. Therefore, it is highly likely that the council will see a reduction in its Revenue Support Grant in the future as a result of the impact of the rising cost of the NHB over and above the £250 million allowed for by the government.

5.2 **Policy Options**

5.2.1 For all of the options below it is suggested that the Council, in view of how the NHB is being funded and the impending changes in local government

finance and funding of local authorities from 2013/14, retains and reserves the full 2011/12 Relevant Year NHB of £3.047m (to be received over six years commencing 2011/12) to support the General Fund revenue budget. Therefore, the policy options set out in paragraph 5.2.2 would apply for the 2012/13 Relevant Year (to be received over six years commencing 2012/13).

5.2.2 The potential options are:

- A Use the whole of the balance of the NHB (after first ensuring support to the General Fund revenue budget to compensate for the loss of RSG as a result of the government top slicing the formula grant funding nationally to fund the NHB) as a Community Development/Investment Fund to be used only in those areas that have received the housing growth. This could be split up on a formulaic basis e.g. population between Market Harborough; Lutterworth; Broughton Astley; Leicester Principal Urban Area falling within the District and Rural Area, on the Community Forum area basis or on council taxbase changes at individual Parish level.
- B Use the whole of the balance of NHB (after first ensuring support to the General Fund revenue budget to compensate for the loss of RSG as a result of the government top slicing the formula grant funding nationally to fund the NHB) as a District wide Development/Investment Fund to be used to meet identified and assessed needs of the various communities throughout the District and/or provision of Districtwide facilities. These need not necessarily be the Council's facilities but could be as a partner or grant funding a facility provided by a third party including the private sector where appropriate.
- C Split any balance (after first ensuring support to the General Fund revenue budget to compensate for the loss of RSG as a result of the government top slicing the formula grant funding nationally to fund the NHB) of the NHB into two 'pots' on an agreed split:
 - a. A locality investment fund to be used on a community budgets arrangement in those areas that have had the housing growth. The areas may be a whole community or part of a community or a community comprising a larger area (clusters). A process for identifying how the money would be used would need to be drawn up but it should be on the basis of clearly identified and articulated need and not on 'pet projects' of the few.
 - b. A district wide investment fund. This fund again could be used flexibly to meet identified need for example:
 - i. Districtwide facilities including funding the increased costs of delivering services as a result of the housing growth e.g. waste management, grounds maintenance, street cleansing, street art and furniture, place making costs.
 - ii. Facilities in areas that cannot support additional housing growth and therefore may not be able to benefit directly from the NHB.

- iii. Support to stimulate economic growth by working with local business organisations and partners
- iv. Pooling a proportion of the fund or match funding with the County Council, LEP and/or the Welland Partnership towards economic or housing development proposals in the District.
- v. Spend on an 'invest to save' basis on green environmental projects on the Council's own infrastructure. Possible examples could include rain water harvesting and use in the significant parks and open spaces, installation of solar panels on the Council Offices and Market Hall roofs, Leisure and Sports Centres, Settling Rooms to generate electricity to feed the surplus back into the national grid and generate income.

6 Legal Issues

- 6.1 There are no legal issues arising from the recommendations in this report. The NHB is a general grant to the Council and therefore it is entirely up to the Council as to its use.

7 Resource Issues

- 7.1 The organisational capacity to implement and put into practice any policy decision relating to the NHB must not be overlooked. Depending on the Council's and the communities attitude to housing growth, the amounts of NHB can be significant as already seen from the first years allocation and the total for the first six years (see paragraph 5.1.1 above).

- 7.2 Therefore, it will be important to resource adequately the management and implementation of the agreed policy or policies to ensure that the desired and expected outcomes are achieved. Programmes and projects arising from policy decisions will have to be properly managed and monitored even if undertaken by the communities or third parties to ensure that the use of public funds is properly managed.

- 7.3 The funding for this should be met from the NHB overall however it should be on a reasonable basis and with a limit set at a percentage of the total e.g. administration costs to be limited to 8% to 10% of the NHB. This range is generally considered an acceptable level for administrative costs in a project.

8 Equality Impact Assessment Implications/Outcomes

- 8.1 The recommended policy option (Option C) provides a fairer and equitable approach to the use of the 2012/13 Relevant Year NHB (relating to the taxbase change between October 2010 and October 2011 and which will be received over six years from 2012/13 to 2017/18).
- 8.2 The reason for this is that the NHB is funded through a top slice nationally of the business rates element in the local government grant funding (RSG) equation. The council will be receiving less in RSG than it would have if NHB

were not in existence. The RSG is to support the overall revenue spending of the Council thus benefitting all taxpayers in the District.

- 8.3 If the use of the NHB is targeted wholly to communities that have had housing growth in their area then the rest of the residents would be disproportionately disadvantaged in terms of the loss of the RSG funding that would have been available to the Council had NHB not been in place.
- 8.4 If the NHB is wholly used to support the General Fund revenue budget to restore the RSG lost to fund the NHB then all the residents of the District would benefit equally.
- 8.5 The proposed policy option C allows for an equitable use of the NHB on the basis that the communities that have had housing growth in their area will have a specific allocation set aside whilst those that have not will benefit from the proportion retained for the District Investment Fund.

9 Impact on the Organisation

9.1 Suggested Route to Policy Decision and Implementation:

There will be a significant level of expectation and views in the community on how the NHB should be used. However, it is important to be absolutely clear from the outset that the NHB is a non ring fenced grant to the Council and not to any individual community or group of communities.

The government expects the council to consult and agree with the community on how the money should be used particularly in areas where new housing has brought about identified pressures on the facilities and the infrastructure. However, it is the Council that the NHB is allocated to and therefore it should be the Council informed by and giving due regard to community views that should determine the use of the NHB. The Council therefore should take a strong strategic and community leadership role rather than being reactive in agreeing and driving the policy on the use of the NHB.

- 9.2 In terms of what is happening elsewhere, from discussions with other authorities in Leicestershire and wider, the general approach by Districts has been to use the NHB to support the General Fund revenue budgets to compensate for the cuts in the RSG in 2011/12 and 2012/13. Most have put some of the NHB in reserves and are spending some on specific local schemes in their areas.

The County Council has stated that it will use its NHB to fund new housing for projects that are 'shovel' ready to proceed on the proviso that the relevant District match funds the projects from its NHB. The County Council's approach has been to urge all councils to use their NHB to fund new housing schemes.

10 Community Safety Implications

10.1 There are no community safety implications arising directly from the recommendations in this report.

11. Carbon Management Implications

11.1 There are no carbon management implications arising directly from the recommendations in this report.

12. Risk Management Implications

12.1 The recommendations on the use of the NHB for the 2011/12 and 2012/13 'Relevant Years' are designed to mitigate against the financial risks to the council in respect of its future funding.

13 Consultation

13.1 An important element in the strategic and community role will be effective communication and engagement with the community to ensure that the policy decision is as widely accepted as possible with the Council accepting that there will always be some that will disagree.

13.2 It is therefore suggested that the recommended policy option is developed by the Executive for consideration by Council. In order that the policy put forward by the Executive is informed and has given due regard to the views of the community or communities formal public consultation should be undertaken.

13.3 The suggested timetable for the policy setting is:

- Development of a draft New Homes Bonus Policy by the Portfolio Holders Group in September/October 2011.
- Policy considered and consultation process and timing agreed at 7th November 2011 meeting of the Executive.
- Consultation on the draft New Homes Bonus Policy undertaken between November and December 2011.
- Results of the consultation and final draft policy to be considered at January 2012 meeting of the Executive.
- Presentation of the final draft policy to Council for consideration and approval in February 2012.
- Implementation of the policy from 1st April 2012 onwards
- Review the policy annually including consultation between April and September for any revisions to be agreed for implementation in the following year in April.

13.4 The proposed policy consultation is undertaken with the Parish Councils, Market Harborough Civic Society and the Harborough Improvement Team representatives. It is suggested that a consultative meeting with the above

consultees is held at the Council Offices in Market Harborough in the period between November and December 2011.

14 Options Considered

14.1 This is an options report.

14.2 The options considered and presented in section 5 above have been drawn up in consultation with and input by the Planning Policy Manager.

15 Background Papers

15.1 New Homes Bonus: final scheme design published by the Department of Communities and Local Government in February 2011.

Previous report(s): None

Information Issued Under Sensitive Issue Procedure: ~~Y~~/N

Ward Members Notified: Not applicable

Appendices:

A. Key Aspects of the New Homes Bonus Scheme (NHB)

Key Aspects of the New Homes Bonus Scheme (NHB)

1 Background to the Scheme

- 1.1 The New Homes Bonus Scheme (NHB) was introduced by the government from the financial year 2011/12. It will run for a six year cycle.
- 1.2 The NHB was introduced as a fiscal incentive to stimulate housing growth through the planning system and bringing back into use empty dwellings and providing additional sites and pitches for travellers. There is an additional incentive payment for new affordable housing.
- 1.3 The Government expects local councillors to work closely with their communities – and in particular the neighbourhoods most affected by housing growth – to understand their priorities for investment and to communicate how the money will be spent and the benefits it will bring. This may relate specifically to the new development or more widely to the local community. This will enable local councillors to lead a more mature debate with local people about the benefits of growth, not just the costs.
- 1.4 The basis of determining the amount of the NHB is the net addition to the authority's council taxbase between successive Octobers. The starting base is the change in the taxbase of the authority between October 2009 and October 2010. The Council Taxbase data is captured by the authority each year and submitted in a return to the government for the annual finance settlement. Regulations govern the detailed methodology in respect of the submission of this return. It is a snapshot of the number of properties by bandings and adjusted for various prescribed items.
- 1.5 The New Homes Bonus is paid to District Council's and County Council's in two tier areas. District Council's will receive 80% and the County Council 20% of the total. The Government calculates each authority's share nationally and pays it direct to each authority. Therefore, the allocation determined and paid by the government to the Council is wholly its own. The County council receives its share directly from the government.

2 Scheme Timelines and Payment Amounts

- 2.1 Payments under the NHB are made on a monthly basis by the government with the Revenue Support Grant from April to March. However the change in the taxbase is from October to October. Therefore, there is a time lag in terms of payments for new additions to the council taxbase between successive Octobers.
- 2.2 The grant will be paid for the relevant year and the five financial years following that year (that is, for a total of six financial years). The total will not be less than zero.
- 2.3 This process will be repeated each financial year with each new amount of grant being added to the amount of grant payable in the preceding financial year.
- 2.4 From the seventh year of the scheme onwards the grant calculated six years earlier will no longer be included in the total grant payable (and so in the seventh year the amount calculated for the first year will not longer be paid, in the eighth year the amount calculated for the second year will no longer be paid and so on).

Relevant Year	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	Up to Year
Year 1	£ Yr 1	£ Yr 2	£ Yr 3	£ Yr 4	£ Yr 5	£ Yr 6		
Year 2		£ Yr 1	£ Yr 2	£ Yr 3	£ Yr 4	£ Yr 5	£ Yr 6	
Year 3			£ Yr 1	£ Yr 2	£ Yr 3	£ Yr 4	£ Yr 5	2018-19
Year 4				£ Yr 1	£ Yr 2	£ Yr 3	£ Yr 4	2019-20
Year 5					£ Yr 1	£ Yr 2	£ Yr 3	2020-21
Year 6						£ Yr 1	£ Yr 2	2021-22
Year 7							£ Yr 1	2022-23

- 2.5 DCLG has allocated nearly £200m to fund the scheme fully in 2011-12. For the following three years of the spending review (2012-13 to 2014-15) the government has allocated £250m per annum with funding beyond these levels coming from Formula Grant. The government states that those authorities which respond to the incentive and embrace housing growth will reap the benefits.
- 2.6 Currently, the amount of grant relating to an additional council tax band D property is £1,439 per annum or £8,634 over six years, and the grant relating to an additional band E property would be about £1,759 per annum or £10,553 over six years. The government will review this if council taxes rise. To ensure that affordable homes are sufficiently prioritised within supply, there is a simple and transparent enhancement of a flat rate £350 per annum for each additional affordable home. This is about 25 per cent of the current average Band D council tax or 36 per cent of the average Band A council tax, and will be reviewed if council tax rises. Over six years an affordable home will receive an **additional** £2,100.

- 2.7 The grant has been designed to be stable and predictable. The New Homes Bonus is not ring fenced and therefore local authorities are free to decide how to spend the funding in line with the local community wishes.

To maximise this, the government will normally pay the New Homes Bonus alongside the local government finance timetable. This means that provisional allocations will be announced in early December and final allocations in early February. This will allow local authorities to include the grant in their budget setting process in February.

3 Measure for Affordable Homes

- 3.1 The government has considered how to include data on affordable homes in the scheme design, in a way which is proportionate – again minimising administrative burdens on central and local government, while ensuring that the data is consistent and accurate.
- 3.2 Currently, the best source of data on affordable homes defined by Planning Policy Statement 3 and including Traveller Sites is considered to be the Department for Communities and Local Government official statistics on gross additional affordable housing supply. This includes data from a range of sources including the Homes and Communities Agency Investment Management System and other Homes and Communities Agency monitoring systems, and returns made by local authorities to DCLG through the Housing Strategy Statistical Appendix and the P2 quarterly house building return. The data is collected for financial years and published in the following October. It includes newly built affordable homes and acquisitions to the affordable stock.
- 3.3 The Department for Communities and Local Government will use the official statistics on gross additional affordable housing supply to calculate the affordable homes enhancement. Local authorities will receive an additional £350 for the following six years for all additional affordable homes reported in this statistical release. This process will be repeated each financial year with each new amount of grant being added to the amount of grant payable in the preceding financial year. From the seventh year of the scheme onwards the grant calculated six years earlier will no longer be included in the total grant payable.
- 3.4 These statistics measure additional affordable supply on a gross basis. They do not deduct demolitions or other losses to stock. Local authorities will therefore receive the enhancement for all new affordable homes regardless of whether there have been any reductions to stock. It is intended to also serve as an incentive for regeneration schemes which demolish unfit housing and include a large number of affordable homes.

The statistics also measure acquisitions – previously market homes that have been made affordable. Acquisitions increase the availability of affordable

homes and so would receive the £350 enhancement. They will not receive the council tax element as they are not new supply and would not be included in the data set from the valuation list.

- 3.5 These statistics run from April to April and do not become available until October. For reasons of simplicity the affordable homes enhancement of £350 per home will be paid the following April. So the enhancement for affordable homes delivered between April 2010 and April 2011 will start to be paid alongside the main grant payments for year two.