

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 8 MARCH 2016

Title of report	GOVERNMENT CONSULTATION ON CHANGES TO NEW HOMES BONUS
Key Decision	a) Financial Yes b) Community Yes
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Purpose of report	To summarise the potential impact of the Government proposals to changes to the New Homes Bonus regime, and to seek Members' views on a response to a consultation paper.
Reason for Decision	To ensure the Council is able to participate in the NHB consultation exercise – NHB being an important funding stream for the Council
Council Priorities	The funding from Central Government assists the Council in achieving all its priorities
Implications: Financial/Staff Link to relevant CAT Risk Management Equalities Impact Screening	<p>As contained in the report.</p> <p>None.</p> <p>The MTFs will be managed and monitored on a regular basis to ensure the Council's finances are balanced.</p> <p>Not applicable.</p>

Human Rights	There are no Human Rights implications.
Transformational Government	Not applicable.
Comments of Head of Paid Service	The report is satisfactory.
Comments of Deputy Section 151 Officer	As report author the report is satisfactory.
Comments of Deputy Monitoring Officer	The report is satisfactory.
Consultees	CLT
Background papers	<u>Consultation Paper - New Home Bonus: Sharpening The Incentive.</u>
Recommendations	<p>1. THAT THE COUNCIL RESPONDS TO THE NHB CONSULTATION PAPER IN LINE WITH THE PRINCIPLES AND COMMENTS SET OUT IN THIS REPORT (SECTION 5).</p> <p>2. DELEGATES THE INTERIM DIRECTOR OF RESOURCES TO RESPOND TO THE CONSULTATION PAPER IN LINE WITH THE PRINCIPLES AND COMMENTS SET OUT IN THIS REPORT.</p>

1.0 INTRODUCTION

1.1 The New Homes Bonus (NHB) was introduced in 2011 to incentivise local authorities to encourage housing growth in their areas. The Government has issued a consultation paper *New Homes Bonus: Sharpening the Incentive* in which it proposes changes to the distribution of the NHB which will reduce the grant, creating Governmental savings that will then be re-distributed with the local government settlement - in particular to support authorities with specific pressures, such as adult social care.

1.2 The deadline for responses to the consultation is 10 March 2016

2.0 BACKGROUND

2.1 NHB grant is paid for each new home provided with a premium being paid for those categorised as affordable homes. The grant is linked to the National Average of the Council Tax Bands. For 2015/16 North West Leicestershire District Council's (NWLDC) National Average for Council Tax Band D is £1,483.58. The premium for affordable homes is a £350 flat rate. The District Authority receives 80% of the grant and the County Authority receives 20% of the grant.

2.2 Each calculated year of the NHB Grant is payable for 6 years (legacy payments). For 2016/17 (Year 6), NWLDC's NHB payment is £650,014. The cumulative total for 2016/17 is £2,773,081. The cumulative effect of the grant for the Authority can be seen in table 1 overleaf.

Table 1 – Current Cumulative effect for NWLDC

	Cumulative	YEAR OF PAYMENT										
		2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Year of Delivery	Payment for Year 1	226,821	226,821	226,821	226,821	226,821	226,821					
	Payment for Year 2		236,498	236,498	236,498	236,498	236,498	236,498				
	Payment for Year 3			459,736	459,736	459,736	459,736	459,736	459,736			
	Payment for Year 4				472,429	472,429	472,429	472,429	472,429	472,429		
	Payment for Year 5					727,582	727,582	727,582	727,582	727,582	727,582	
	Payment for Year 6						650,014	650,014	650,014	650,014	650,014	650,014
	2016/17 Payment						2,773,081					

3.0 OPTIONS WITHIN THE CONSULTATION PAPER

3.1 The consultation has two elements:

- Changing the number of years for which payments are made
- Reforms to the NHB incentive.

3.2 Any changes will be from 2017/18.

Changing the number of years for which payments are made

3.3 The number of years for which payments are to be paid will be reduced from 6 years to 4. This is the Government's preferred option. The Government is also considering a phased approach with existing and future allocations of 5 years in 2017/18 and 4 years in 2018/19. It has also highlighted options for reducing from 6 years to 3 or 2.

Reforms of the NHB to improve the incentive.

3.4 The Government is considering three ways in which the incentive impact of the NHB could be improved:

- Withholding new bonus allocations in areas where no local plan has been produced. This is the Government's preferred option
- Reducing payments for homes built on appeal. Councils currently receive the NHB payments for all developments including those that have been granted planning permission on appeal. Therefore the NHB payments currently do not reflect positive or negative decisions by the authority to allow or disallow development. The Government is proposing to reduce the NHB by 50% or 100%, using data collected by the Planning Inspectorate, to reflect developments that have been granted through appeals processes.
- Only making payments for delivery above a baseline representing deadweight. The Government wants to focus the payments to local authorities demonstrating a strong commitment to growth and development. They are suggesting setting a baseline for all areas and only make new allocations of NHB relating to housing above the baseline.

4.0 FINANCIAL IMPLICATIONS OF PROPOSED CHANGES

4.1 The tables below reflect the potential reduction of NHB grant due to the reduction of the legacy payments from 6 to 4 years. Table 2 illustrates a standstill position, where no options are implemented. Table 3 illustrates the reduction implemented from 5 to 4 years and Table 4 illustrates the reduction from 6 to 4 years. All tables assume years 2017/18 onwards are the same as 2016/17 and are for illustration of the effect only.

Table 2 – Unreformed position for comparison

		YEAR OF PAYMENT (£m)										
	Cumulative	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Year of Delivery	2011/12	0.23	0.23	0.23	0.23	0.23	0.23					
	2012/13		0.24	0.24	0.24	0.24	0.24	0.24				
	2013/14			0.46	0.46	0.46	0.46	0.46	0.46			
	2014/15				0.47	0.47	0.47	0.47	0.47	0.47		
	2015/16					0.73	0.73	0.73	0.73	0.73	0.73	
	2016/17						0.65	0.65	0.65	0.65	0.65	0.65
	2017/18 *							0.65	0.65	0.65	0.65	0.65
	2018/19 *								0.65	0.65	0.65	0.65
	2019/20 *									0.65	0.65	0.65
	2020/21 *										0.65	0.65
	Annual Payment	0.23	0.46	0.92	1.40	2.12	2.77	3.20	3.61	3.80	3.98	3.25

*From 2017/18 onwards, the same value as 2016/17 has been used. This is only to illustrate the impact of the proposed change

Table 3 – Reduction from 5 to 4 years

		YEAR OF PAYMENT (£m)										
	Cumulative	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Year of Delivery	2011/12	0.23	0.23	0.23	0.23	0.23	0.23					
	2012/13		0.24	0.24	0.24	0.24	0.24					
	2013/14			0.46	0.46	0.46	0.46	0.46				
	2014/15				0.47	0.47	0.47	0.47				
	2015/16					0.73	0.73	0.73	0.73			
	2016/17						0.65	0.65	0.65	0.65		
	2017/18 *							0.65	0.65	0.65	0.65	
	2018/19 *								0.65	0.65	0.65	0.65
	2019/20 *									0.65	0.65	0.65
	2020/21 *										0.65	0.65
	Annual Payment	0.23	0.46	0.92	1.40	2.12	2.77	2.96	2.68	2.60	2.60	1.95

Table 4 – Reduction from 6 to 4 years

		YEAR OF PAYMENT (£m)										
	Cumulative	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Year of Delivery	2011/12	0.23	0.23	0.23	0.23	0.23	0.23					
	2012/13		0.24	0.24	0.24	0.24	0.24					
	2013/14			0.46	0.46	0.46	0.46					
	2014/15				0.47	0.47	0.47	0.47				
	2015/16					0.73	0.73	0.73	0.73			
	2016/17						0.65	0.65	0.65	0.65		
	2017/18 *							0.65	0.65	0.65	0.65	
	2018/19 *								0.65	0.65	0.65	0.65
	2019/20 *									0.65	0.65	0.65
	2020/21 *										0.65	0.65
	Annual Payment	0.23	0.46	0.92	1.40	2.12	2.77	2.50	2.68	2.60	2.60	1.95

4.2 The further reforms highlighted in paragraph 3.4 will also have a financial impact on the authority but are not easily quantifiable until more details are known - baseline funding for example.

4.3 All of the measures proposed by Government will have the impact of reducing the funding to the Authority.

5.0 NORTH WEST LEICESTERSHIRE'S CONSIDERATIONS

5.1 Whilst we recognise and support the need to increase funding for adult social care, we are concerned that doing so through the NHB funding pot may prove counter-productive to the Government's housing growth ambitions.

5.2 Reducing the funding available for NHB may result in local authorities feeling less incentivised to deliver housing growth and/or not being rewarded for some housing growth

that they have already consented (but has yet to be built). To help re-address this, we would like to look at ways in which the Government may be able to provide some levers to local government which would help them unlock some of the consents that developers are currently sitting on. If some new levers were possible, local authorities would still have an incentive to help accelerate the pace of housing delivery in a way that will not happen if developers continue to stockpile consents.

- 5.3 With this in mind NWLDC supports the move of payments from 6 to 4 years and would like to see a phased implementation by moving to 5 years for the first year of operation.
- 5.4 NWLDC is not in favour of the reforms to the planning regime options and feels that these should be kept separate from the NHB financial incentive. If however the Government's preferred option of holding back new bonus allocations in areas where no local plan has been produced was introduced, it is considered that anything other than a modest proportion of that year's payment being withheld would be an unfair and disproportionate sanction. It is also not clear what is meant by "produce" a local plan. It is widely assumed to mean 'To Submit to the Secretary of State': however it might mean to Adopt the local plan. This distinction has the potential to significantly complicate matters, in particular decisions about the distribution of housing across the Housing Market Area (which is Leicester and Leicestershire). More detail about what this means would be required and welcomed.
- 5.5 With regard to reducing payments for homes built on appeal - when the NHB was first introduced, the then Secretary of State announced that receipt of the bonus was a material consideration when determining planning applications. That position has since been tested, and clarified not to be the case. It is difficult to reconcile that clarified position with the consequence of reducing the NHB payment if homes had been secured by appeal. Notwithstanding this, if the Government was to proceed with this approach, some account would need to be had of whether the decision to refuse permission had been a delegated officer one, or made by the Planning Committee. Further, account would need to be had of whether Member decisions had been in accordance with officer recommendation or not. This is to address concerns that planning merits might be viewed to be outweighed by NHB as a matter of course, resulting in a tension with the established planning principle that each case is considered on its own merits.
- 5.6 With regard to making payments for delivery above a baseline representing deadweight - the level that the baseline is set at would be of crucial importance, and hotly contested. A mechanism to review baseline figures would need to be put in place, and the higher the baseline is set, the incentive to grant permission reduces accordingly as the prospect of a resulting significant financial return diminishes.
- 5.7 As part of the consultation paper, the Government has set out 14 questions that it would like answered, and it is proposed that the Interim Director of Resources answers the questions and responds to the consultation paper in line with the principles and comments set out above.