

**Committee:** Cabinet

**Agenda Item**

**Date:** 12 January 2016

**10**

**Title:** New Homes Bonus Consultation Response

**Portfolio Holders:** Councillor Howell

Item for decision

### Summary

1. On 17 December 2015 the provisional 2016/17 local government finance settlement was announced.
2. As part of this there was also an announcement of possible changes to New Homes Bonus (NHB) from 2017/18. The Government commenced a consultation which runs until 15 March 2016 with the outcome being announced in June 2016.
3. This report sets out the recommended response to the consultation. The paragraphs giving context to the questions are taken directly from the consultation document.

### Recommendation

It is recommended that Cabinet approves the response to the consultation as set out in this report.

### Financial Implications

4. None at present. However the outcome of the consultation could have significant financial consequences for the Council.

### Background Papers

None.

### Impact

Communication/ Consultation	A Member briefing was held on 11 January 2016 setting out the potential implications of the proposals
Community Safety	No specific implications
Equalities	No specific implications
Health and Safety	No specific implications
Human Rights	No specific implications
Legal implications	No specific implications
Sustainability	No specific implications
Ward-specific impacts	No specific implications
Workforce/Workplace	Depending upon the outcome there is the potential for the need to review service delivery in light of reduced funding.

## **Background**

5. The New Homes Bonus reflects the crucial role local authorities play in supporting housing and wider economic growth by rewarding additional homes built in their areas. The Bonus rewards local authorities for each additional new build and conversion using the national average council tax in each band. Long-term empty properties brought back into use are also included and there is a premium for affordable homes. Each year's grant is paid for 6 years. The Bonus is not ring-fenced. In two-tier areas payments are split between both county (20%) and district (80%) authorities. From 2016-17, allocations to local authorities made under the Bonus are expected to total in the region of £1.4 billion to £1.5 billion annually. Since its introduction, payments to local authorities have totalled just under £3.4 billion reflecting over 700,000 new homes and conversions and over 100,000 empty homes brought back into use. Of the total, over 200,000 were affordable homes.
6. Proposed changes to the distribution of the Bonus should be seen in the context of the outcome of the 2015 Spending Review. This confirmed the intention to move to full retention of business rates by 2020 and a preferred option for savings of at least £800 million, which can be used for social care. Savings in the overall cost of the Bonus will be redistributed with the local government settlement, in particular to support authorities with specific pressures, such as in adult social care budget.
7. Although the Government is not proposing changes for 2016-17 payments, reductions in payments will be necessary in order to stay within this new funding envelope from 2017-18 onwards. This can be combined with reforms to both sharpen its incentive effect and free up resources for authorities with particular pressures, such as adult social care.
8. The consultation consists of 14 questions split over a number of areas.

## **Payment years**

9. At present, each year's allocation under the Bonus leads to "legacy" payments over 6 years. Originally, this was to compensate for reductions in settlement allocations which reflected growth in an authority's Council Tax base. However, since 2011, the decision has been taken not to reduce allocations in this way.

### **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?

### **Response to Question 1**

Under these proposals the Council would lose a considerable amount of money which is an integral part of the Council's budget and is used for the benefit of the community. Any loss of these funds could have a significant detrimental impact on the Council's ability to provide important services.

### **Question 2**

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

## **Response to Question 2**

No. Under these proposals the Council would lose a considerable amount of money which is an integral part of the Council's budget and is used for the benefit of the community. Any loss of these funds could have a significant detrimental impact on the Council's ability to provide important services. Reducing further the number of years in the scheme would have a much bigger impact on the range and quality of services the Council could provide.

## **Bonus allocation calculator**

10. Bonus allocations are currently calculated using the council tax returns. The net increases in numbers of homes falling within each council tax band are established by comparing successive years' returns. The numbers of homes falling outside band D are then scaled to reflect their equivalence to band D. The resulting total figure is then applied to the national average band D council tax bill for the year to generate the total allocation for that year. There are some concerns that this approach, by favouring higher band homes above those falling into lower bands, could result in some skewing of allocations in favour of areas with higher house prices although this may be partially mitigated by the use of an average value for the band D council tax bill

## **Question 3**

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

## **Response to Question 3**

This seems to be the simplest and fairest way to allocate the bonus.

## **Local Plan, appeals and deadweight**

11. At present, the Bonus rewards all net additions to housing in an area regardless of the path leading to their construction. It is possible to argue that the Bonus is, therefore, insufficiently focused on really strongly performing authorities. In order to counteract these effects, the Government has considered three ways in which the incentive impact of the Bonus could be improved:

- a) withholding new Bonus allocations in areas where no Local Plan has been produced in accordance with the Planning and Compulsory Purchase Act 2004;
- b) reducing payments for homes built on appeal; and
- c) only making payments for delivery above a baseline representing deadweight (development that would have been delivered regardless of incentive).

#### **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?

#### **Response to Question 4**

The worked example is unclear. If the Council failed to submit a Local Plan in 2017/18 the impact would be in 2018/19 not as shown in the example. DCLG have set a target date of Local Plan submission by 31 March 2017. No penalties should arise before that date. We understand that a Local Plan is important and the Council is committed to producing a new Local Plan. However, the Council has taken a positive attitude to addressing the requirements of the NPPF and has been positively engaging with developers to bring forward potential schemes, considering them positively and in many cases approving them. To penalise this authority who has taken this positive stance to the delivery of new housing by approving acceptable schemes (totalling some 3800 since 2012) outside existing development limits is unfair.

12. To be effective, Local Plans need to be kept up-to-date. Policies will age at different rates depending on local circumstances, and local planning authorities should review the relevance of the Local Plan at regular intervals to assess whether some or all of it may need updating. Most Local Plans are likely to require updating in whole or in part at least every five years. The Government has, therefore, considered an alternative approach to abatement based on a banded mechanism whereby authorities would lose a fixed percentage of the Bonus they would otherwise have received based on the date of their adopted Local Plan.

#### **Question 5**

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

#### **Response to Question 5**

No. While the Council agrees that it is right, and important, to keep Local Plans up to date setting an arbitrary date of 5 years is inappropriate. Local Plans (as required by the NPPF) have to have at least a 15 year horizon. Plans and policies need to be reviewed to ensure they are up to date but policies become out of date at differing times not to some arbitrary limit.

13. Currently, where a development is granted planning permission on appeal, overturning the original decision made by a local planning authority (or in place of a decision by the authority in the case of appeals against non-determination), councils receive the same reward as when development takes place that the local planning authority has permitted. This means that Bonus payments do not always reflect positive decisions to allow development, and nor do they reflect the additional costs and delays for applicants arising as a result of the appeal process. The Government is, therefore, proposing to reduce new in-year allocations payments to individual authorities where residential development is allowed on appeal.

### **Question 6**

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

### **Response to Question 6**

No. If this were to be introduced it should be over and above a certain number as proposed for deadweight in questions 9 and 10. This would be on the assumption that there will always be some cases won at appeal regardless of the Local Plan or Bonus. Should the appeal be for a significant number of homes, applying the penalty immediately would be over penalising as, in reality, housing delivery for the site will occur over a much longer period of time. There should be no retrospective element to this proposal and it should only apply to local authority decisions made after the date of the consultation results announcement. Any change should ensure the in-year minimum is zero i.e. an authority cannot be in a position of negative subsidy.

### **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?

### **Response to Question 7**

No. If this were to be introduced it should be over and above a certain number as proposed for deadweight in questions 9 and 10. The percentage of NHB lost should be no more than 50%

### **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 3) should the new model also be adopted for this purpose?

### **Response to Question 8**

Yes

14. The Bonus is currently paid on all new housing regardless of whether or not it would have been built without an incentive. Removing this deadweight from the calculation of the Bonus would allow payments to be more focused on local authorities demonstrating a stronger than average commitment to growth.

### **Question 9**

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

### **Response to Question 9**

No. The best incentive is to continue to award Bonus on all new homes. A national baseline would be an arbitrary decision and would not be based on evidence. If this idea of deadweight were to be introduced it should be aligned to the 'windfall allowance' that is tested as part of the Local Plan process.

### **Question 10**

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

### **Response to Question 10**

No. The best incentive is to continue to award Bonus on all new homes. A national baseline would be an arbitrary decision and would not be based on evidence. If this idea of deadweight were to be introduced it should be aligned to the 'windfall allowance' that is tested as part of the Local Plan process. Under this proposal the deadweight for Uttlesford would be approximately 90 units whereas the tested 'windfall allowance' is 50.

### **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?

### **Response to Question 11**

If there is a finite pot of money the average council tax multiplier should be reduced. Increasing the baseline would be arbitrary.

## **National parks, development corporations and county councils**

15. National Park Authorities (and the Broads Authority) are responsible for decisions on planning applications in their areas, and for producing a Local Plan; whereas New Homes Bonus payments are made to the relevant district and county councils. This reflects the fact that local authorities are responsible for many of the services that would be affected by increased population in their areas. The original scheme design for the New Homes Bonus did, however, make clear that billing authorities were expected to discuss with National Park Authorities and the Broads Authority the use of Bonus receipts in their areas.

### **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?

### **Response to Question 12**

Yes. All bodies should be treated the same.

16. Government has also considered the position of county councils in two tier areas, who receive 20% of Bonus payments, but are not the planning authority for decisions involving residential development.

### Question 13

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

### Response to Question 13

Yes. County councils are tied to and therefore part of the process as they are directly responsible for highways, education and flood prevention

### Protecting individual local authorities

17. In proposing the reforms set out in this consultation, Government has sought to ensure that impacts strike the right balance between rewarding local authorities who are truly open to housing growth in their areas and the provision of sufficient resources, when taken with those provided under the wider local government settlement, to meet local needs. It is possible, however, that some local authorities might be particularly adversely affected by the changes which Government is proposing. Whilst this might reflect unwillingness to support and encourage housing growth in their areas, it might also suggest factors which are outside that local authority's control. Government would, therefore, welcome views on whether there is merit in some form of mechanism to protect local authorities who are particularly adversely affected by the reforms proposed in this consultation paper.

### 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?

### Response to Question 14

There is merit in considering protection however in the event of a smaller total funding envelope it is likely that most authorities will face an adverse impact. The calculation should be based on revised allocation as a percentage of expected, with protection for those incurring the biggest percentage decrease.

### Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
The outcome of the consultation is such that it has significant financial consequences for the Council	4 (The Government will introduce at least some changes)	3 (Any change will have a significant impact on the finances of the Council)	Respond to the consultation and prepare plans for change whilst ensuring sufficient reserves exist to smooth the change process