

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

15 December 2010

Report of the Management Team

Part 1- Public

Executive Non Key Decisions

1 NEW HOMES BONUS – CONSULTATION

This reports sets out details a consultation paper received from the Department for Communities and Local Government regarding a ‘New Homes Bonus’. The consultation closes on 24 December, and Members are asked to consider a response to the consultation.

1.1 Introduction

1.1.1 The Government issued a consultation paper on its ‘New Homes Bonus’ on 12 November. The consultation is some 60 pages long, so is not reproduced here. Instead, it can be found on the Communities and Local Government website at <http://www.communities.gov.uk/publications/housing/newhomesbonusconsult>

1.1.2 Members are advised that the consultation closes on 24 December and, given its importance to the Council, one of the purposes of this report is to formulate a response to the consultation.

1.1.3 The scope of the consultation is as follows:

“This consultation sets out the details of the scheme and the rationale for the proposed mechanisms. It also sets out how the scheme sits within the wider context of the government’s locally-driven growth strategy.

This is largely a technical consultation for local authorities. In the current financial circumstances, it is important that the final scheme is announced alongside the local government finance settlement early in the new year so that local authorities have clarity when they set their budgets and council tax in March.”

1.2 The New Homes Bonus (NHB) - Summary

1.2.1 The stated aim of the scheme is *”to create a powerful, simple, transparent and permanent incentive which rewards local authorities that deliver sustainable housing development.”*

1.2.2 The paper sets out the Government's preferred model for implementing the NHB. The scheme will reward local authorities with a bonus, paid through Section 31 of the local Government Act 2003, as un-ringfenced grant.

1.2.3 The scheme has been designed in line with the following key principles:-

- Powerful - grant will be payable for the following 6 years (2011/12 to 2017/18)
- Simple
- Transparent
- Predictable – scheme is intended to be a permanent feature of local government funding
- Flexible – local authorities can decide how to spend the funding in line with local communities.

1.2.4 At **[Annex 1]** to this report is an extract taken direct from the Communities and Local Government website detailing some Frequently Asked Questions about the proposed scheme.

1.2.5 Starting in 2011/12 the proposed New Homes Bonus scheme will 'match fund' the additional council tax (based on national average - currently £1439) for each new home built or brought back into use for each of the six years after that home is built. There will be additional 'top up' funding (£350) for affordable homes. Members are referred to paragraphs 1.3 and 1.4 for further details.

1.2.6 The consultation suggests that the grant should be shared in two tier areas between the District and County Councils on an 80:20 split (in favour of district councils). Members are referred to paragraph 1.6 for more detail.

1.2.7 The paper sets out the details as to how the funding will be found (see paragraph 1.10) and how the data will be collected about housing development (see paragraph 1.7).

1.3 Unit of Reward

1.3.1 The Government proposes linking the level of grant for each additional dwelling to the national average council tax for the following six years. One of the reasons that is given for not linking to the actual council tax is that the government "*does not want to penalise authorities which have been prudent.*"

1.3.2 For the purposes of the consultation paper, the national average for a Band D council tax in 2010/11 is quoted as £1,439. (The Band D in TMBC area inclusive of an "average parish council precept" is £1466.38).

1.3.3 **Question** posed in the Consultation:

“ Do you agree with our proposal to link the level of grant for each additional dwelling to the national average of the council tax band?”

A draft response is set out in [**Annex 2**] for Members’ consideration.

1.4 Affordable Housing Enhancement

1.4.1 The paper proposes a flat rate enhancement of £350 per annum for each additional affordable home, which would be reviewed if council tax rises.

1.4.2 The definition of ‘affordable homes’ is based on Appendix B of PPS3 , plus an amendment for the addition of pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords.

1.4.3 The proposed definition of affordable homes is :

Affordable Housing is: Housing which includes social rented and intermediate housing, provided to specified eligible households whose needs are not met by the market.

Affordable housing should: meet the needs of eligible households including availability at a cost low enough for them to afford, determined with regard to local incomes and local house prices.

1.4.4 The Borough Council has a well established track record in the delivery of affordable housing to meet local need. That approach includes well researched needs and housing market analysis, a well developed housing strategy with clearly defined policies, programmes and affordable housing delivery targets, clearly defined affordable housing policies within the adopted LDF and an affordable housing supplementary planning document. These, together with the strength of partnership working with preferred partner housing associations, have enabled the Council to maintain a reputation for bringing forward high quality affordable housing schemes through the planning system. This further reinforces the case for the local planning and housing authority in two-tier local government areas to be the sole beneficiary of the NHB and the affordable housing enhancement (see paragraph 1.6).

1.4.5 There are two **questions** posed in the Consultation regarding affordable homes:

“The Government proposes an affordable homes enhancement of £350 for each of the six years – what do you think the enhancement should be?”

“Do you agree with the proposal to use PPS 3 and also include pitches on Gypsy and Traveller sites owned and managed by local authorities or registered social landlords to define affordable homes?”

- 1.4.6 The enhancement needs to be sufficient to adequately reward and incentivise the delivery of affordable housing. To that end, the enhancement should not be less than the £350 proposed.
- 1.4.7 The definition of affordable homes is appropriate and the proposal to apply the affordable homes enhancement to pitches on Gypsy and Traveller sites owned and managed by local authorities or registered providers is supported. However, the NHB payment (excluding the enhancement) should also apply to pitches provided on sites in private ownership.

Draft responses are set out in **[Annex 2]** for Members' consideration.

1.5 Empty Homes

- 1.5.1 The Government is keen to encourage the bringing back into use of empty properties and proposes to reward local authorities for doing so through the NHB. Although empty homes are not a significant issue in this borough, the thrust of the proposal is supported. It is recognised that long term empty properties can cause significant adverse impact on local communities and it is appropriate for the often difficult and time consuming work to be rewarded. This Council successfully tackles a small number of such difficult cases annually which commonly involves formal enforcement action.
- 1.5.2 **Question** posed in the Consultation:

Do you agree with the proposal to reward local authorities for bringing empty properties back into use through the New Homes Bonus?

Are there any practical constraints?

A draft response is set out in **[Annex 2]** for Members' consideration.

1.6 Tier Split

- 1.6.1 In two tier areas, the Government proposes to split the payment of the New Homes Bonus between district and county council on an 80:20 ratio.
- 1.6.2 The Government says:

“For the incentive to be most powerful, it must be strongest where the planning decision sits – the lower tier in two tier areas. However, in two tier areas outside London, we recognise the role of the upper tier in the provision of services and infrastructure and the contribution they make to strategic planning “

- 1.6.3 In this respect it should be remembered that the purpose of the initiative is to encourage house-building and in particular to incentivise a sound approach by local planning authorities to planned development and decision making which is

often challenging locally. In two tier areas it is of course district councils who have the duty and responsibilities for such decisions through their planning powers and accordingly that is where the sole focus of the funding should be directed.

- 1.6.4 The Borough Council has a long and well based tradition in forward planning and has over the years taken some challenging decisions to ensure a confident supply of both general and affordable housing. It has carried out this function by taking a strategic approach to development and as far as possible worked hard within its remit to coordinate development and infrastructure investment, particularly in the Medway Gap area. As a result the rate of development in the Borough has been sustained at a pace above other areas of the County regarded as growth points. The approach adopted has also ensured that the quality of development has been well managed.
- 1.6.5 The predicted future trajectory of housing completions through our LDF work shows a continuing healthy picture. This reflects the decisions the Council has taken and is due to take, but also remains dependent on significant intervention by the Council. Consequently it seems appropriate for the New Homes Bonus to be directed to the Borough Council in recognition of this important and continuing role in ensuring housing supply and our view is that **100% of the proceeds** should be routed to District councils.
- 1.6.6 Members will note from the full consultation paper that the potential for pooling some New Homes Bonus at the level of the Local Enterprise Partnership is mentioned. In practice this could prove divisive but is a discussion for another day.
- 1.6.7 **Question** posed in the Consultation:

“Outside London: do you agree with the proposal to split the payment of the New Homes bonus between tiers: 80% to the lower tier and 20% to the upper tier, as a starting point for local negotiation?

If not, what would the appropriate split be, and why?”

A draft response, based on the commentary above, is set out in **[Annex 2]** for Members’ consideration.

1.7 Basis of Data Collection to Calculate Grant and Timing of Payments

- 1.7.1 The Government’s preferred option for collecting the data required to determine NHB allocations is to use information from the annual Council Tax Base (CTB) return that billing authorities submit each October.
- 1.7.2 In simple terms, the government will compare data from one year’s return to the next in order to establish the growth in the tax base.

- 1.7.3 This is a simple and efficient way to establish growth. There are some anomalies that could arise – for example, significant downward banding changes to existing properties in an area will ‘net down’ the real growth in housing stock simply because of the way the data is reflected. Conversely, upward banding changes will, on paper, indicate more ‘growth’ than is true in reality. By and large, it is likely that the ‘net effect’ of upward and downward banding changes will be insignificant and therefore we agree that this is a simple and efficient way to establish growth and will ensure consistency in approach between authorities.
- 1.7.4 In terms of payment, the Government proposes to pay the NHB alongside the local government finance timetable. It is intended that Year 1 (2011/12) allocations will be published “as soon as possible” after the consultation. We believe that for budget planning purposes, it is imperative that the NHB allocations are announced at the same time as formula grant.
- 1.7.5 As the CTB forms are completed in October, the Government recognises that there will be a time-lag for payment for those houses built after the October “cut-off point”. It is inevitable that there will be issues like this that arise, but in order to keep the scheme as simple and transparent as possible, we agree that the potential for a time-lag should be accepted.
- 1.7.6 The Government considers the DCLG official statistics on gross additional affordable housing supply to be the best source of data on affordable homes. These statistics measure additional affordable supply on a gross basis (i.e. demolitions or losses to stock are not deducted). However, there have been instances when the statistics published by the CLG on their Hub do not show a correlation with the affordable homes delivery statistics reported annually by the Council on the Housing Strategy Statistical Appendix (HSSA). Hence, our preference is for the HSSA, as the more transparent data, to be used for calculation of the NHB.
- 1.7.7 The statistics also measure acquisitions of affordable homes from existing housing (non-affordable) stock. As these acquisitions not new supply but effectively a “conversion” of supply, they would attract the additional £350 enhancement only; and this seems to be a reasonable and fair approach.
- 1.7.8 The consultation asks how significant the issue of demolitions is; and whether demolitions by local authority, including demolitions by Registered Providers, could be collected.
- 1.7.9 The issue is not significant at TMBC, although we accept that in some areas (e.g. cities) this could be a more significant issue.

- 1.7.10 There are several **questions** posed in the Consultation regarding data collection and the timing of payments:

Do you agree with the proposal to use the data collected on the Council Tax Base form as at October to track net additions and empty homes?

Do you agree with the proposal for one annual allocation based on the previous year's Council Tax Base form, paid the following April?

Do you agree that allocations should be announced alongside the local government finance timetable?

Do you agree with the proposal to reward local authorities for affordable homes using data reported through the official statistics on gross additional affordable supply?

How significant are demolitions?

Is there a proportionate method of collecting demolitions data at local authority level?

Draft responses are set out in **[Annex 2]** for Members' consideration based on the commentary above.

1.8 Additional Issues

- 1.8.1 In designing the scheme, the government has had regard to equality issues. The paper states that discussions have been held with interested parties to allow them to comment on any equalities issues they see arising from the scheme design and no equality issues (intended or unintended) have been identified at the time of issuing the consultation paper. A consultation stage impact assessment for the New Homes Bonus is being published alongside this consultation document.

- 1.8.2 **Question** posed in the Consultation

Do you think the proposed scheme will impact any groups with protected characteristics?

Do you agree with the methodology used in the impact assessment?

We would welcome your wider views on the proposed New Homes bonus, particularly where there are issues that have not been addressed

1.9 Legal Implications

1.9.1 It is proposed that the New Homes Bonus will be paid through Section 31 of the Local Government Act 2003 as an un-ringfenced grant. Section 31 is a wide ranging power, which allows any Minister to make a grant to a local authority for any expenditure incurred, subject to such conditions as the Minister determines.

1.10 Financial and Value for Money Considerations

- 1.10.1 DCLG has set aside nearly £200 million to fully fund the scheme in the first year, 2011/12.
- 1.10.2 For the following three years of the Comprehensive Spending Review period (i.e. 2012/13 through to 2014/15), the Government states that they have set aside £250 million per annum; and funding beyond these levels will come from Formula Grant.
- 1.10.3 The Government expects that by year six of the scheme (i.e. 2017/18) at a steady rate of build the cost will be at least £1 billion.
- 1.10.4 Members will have noted the reference above to 'funding beyond certain levels to come from Formula Grant'. This means that the cuts announced to Formula Grant on 20 October as part of CSR will not be the last as inevitably Formula Grant will have to be further top-sliced to fund the scheme.
- 1.10.5 Clearly from a financial point of view, NHB becomes an integral and significant part of our medium term financial planning particularly as formula grant reduces.
- 1.10.6 As we have mentioned, this Council has an excellent track record of delivering new housing in response to demand and therefore this new initiative is very welcome indeed.
- 1.10.7 Using the 'on-line calculator' on the CLG website, as well as information from recent CTB returns, we estimate that the Council could see a payment of over £650k in Year; and by Year 6 this could be in excess of £3 million. These are clearly significant sums. It should, however, be remembered that formula grant is likely to drop further given the necessary top-slicing, but given the number of extant planning permissions we have within the borough for new dwellings, it is likely that the potential NHB could significantly outstrip this loss.
- 1.10.8 We should approach this cautiously however. The parameters laid out in the consultation are not yet agreed, and whilst it is currently stated that any NHB should be un-ringfenced, this may not prove to be the case in reality. Again, whilst the Government suggests that this will be a permanent arrangement, as we know schemes such as this eventually do reach a natural end point.

1.10.9 That said, even with those caveats, this is an exciting initiative which should see the Council, and most importantly our taxpayers, see some reward for the work we have put in to deliver much needed homes within our boundaries. It will, if agreed, assist us in alleviating the severe financial pressures we face as a result of the recession and cuts to formula grant.

1.11 Risk Assessment

1.11.1 If the scheme is implemented as set out in the consultation paper, the Council could benefit from additional funding which will help to alleviate the financial pressures we face.

1.11.2 If the proposals do not go ahead as suggested, the Council will need to address very quickly the financial pressures.

1.12 Equality Impact Assessment

1.12.1 See 'Screening for equality impacts' table at end of report

1.13 Policy Considerations

1.13.1 Community

1.14 Conclusions

1.14.1 In summary, the Council welcomes the introduction of the New Homes Bonus and the recognition it brings for those Councils that are engaged in the delivery of housing growth in response to known demand.

1.14.2 The introduction of the scheme from April 2011 will assist the Council in partially mitigating the implications of the severe reductions in formula grant following the Comprehensive Spending Review.

1.15 Recommendations

1.15.1 It is **RECOMMENDED** that Members consider and endorse the draft response to the consultation set out at **[Annex 2]**.

Background papers:

Nil

contact: Sharon Shelton
John Batty
Steve Humphreys

David Hughes
Chief Executive for Management Team

Screening for equality impacts:		
Question	Answer	Explanation of impacts
a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the community?	No	Response to national consultation only.
b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality?	N/A	
c. What steps are you taking to mitigate, reduce, avoid or minimise the impacts identified above?		

In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above.