

TONBRIDGE & MALLING BOROUGH COUNCIL

CABINET

16 March 2021

Report of the Management Team

Part 1- Public

Executive Non Key Decisions

1 NEW HOMES BONUS SCHEME

On 10 February 2021, the Ministry of Housing, Communities and Local Government published the paper 'The Future of the New Homes Bonus: consultation'. Responses are requested by 7 April 2021, and this report sets out an indicative response to the consultation.

1.1 Introduction

- 1.1.1 This consultation seeks views on the future of the New Homes Bonus (NHB), from 2022/23 onwards.
- 1.1.2 The consultation covers a number of options for reforming NHB to provide an incentive which is more focused and targeted on ambitious housing delivery, complements the reforms outlined in the government's Planning White Paper, and dovetails with the wider financial mechanisms the government is putting in place, including the infrastructure levy and the Single Housing Infrastructure Fund.
- 1.1.3 The return date for responses to the consultation is 7 April 2021 and a copy of our proposed response, based on information available at the time of writing, is attached at **[Annex 1]**. The paper can be found at the following link:

<https://www.gov.uk/government/consultations/the-future-of-the-new-homes-bonus-consultation/the-future-of-the-new-homes-bonus-consultation>

1.2 Background

- 1.2.1 The NHB was introduced in 2011 to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth in their areas.
- 1.2.2 NHB rewards local authorities for each additional new build and conversion using the national average band D council tax rate. Long-term empty properties brought back into use are also included and there is a premium for affordable homes. In two-tier areas payments are split (district 80% county 20%).

- 1.2.3 The Scheme initially made payments for 6 years (an initial in-year payment and 5 years' worth of what became known as legacy payments), with all eligible growth counting towards authorities' allocations. In 2018/19 the payment period was reduced to 4 years and a baseline introduced below which NHB would not be paid. For the year 2020/21 the payment period was reduced to 1 year (no legacy payments on that year's allocation) and again in 2021/22 (no legacy payments on that year's allocation) presumably because of this pending consultation.

1.3 'The Future of the New Homes Bonus: consultation'

Overview

- 1.3.1 A summary of the main points from the consultation is given below:

- The new scheme will be in place for 2022/23.
- The government do not intend for the new scheme to include legacy payments.
- There is no mention as to whether the final legacy payment for 2019/20 due in 2022/23 (value £829,000) will be paid alongside the replacement for NHB. *The MTFS assumes this payment will be honoured.*
- Asks whether there should be a change to the current split of NHB in two-tier areas; the affordable housing premium should be maintained; the reward should be maintained for bringing long term empty properties back into use; and seeks views on the data used, i.e. to use the most recent year of housing delivery or a three-year average.
- The paper includes six Options (A to F), but these are not mutually exclusive.
- 10 of the 30 questions relate to the baseline below which NHB would not be paid. The paper considers three options, raising the generic threshold (Option A) a tailored local threshold based on historic growth (Option B) or a hybrid approach (Option C). The paper states that the government wants the threshold to be significantly higher than the current 0.4% baseline. *At the current 0.4% baseline NHB is not paid on approximately the first 240 properties.*
- An option for funding from NHB to be potentially repurposed to equalise the amounts raised from the new Infrastructure Levy; reflecting that land value uplift is greatest in areas where development values are high.
- Asks whether some of the NHB could be distributed based on Modern Methods of Construction (MMC), with either a proportion set-aside for MMC properties (Option E) or the entire allocation being dependent on a minimum percentage of MMC properties being constructed (Option F).

- Asks, as was previously suggested in the 2015 consultation, whether an up-to-date Local Plan (or at least working towards one) should be a requirement to receive NHB, with potentially lower allocations for those authorities without an up-to-date Plan.

1.3.2 Responses to these and other questions raised are to be found at **[Annex 1]**.

Conclusions

1.3.3 The Council has done what was asked and encouraged growth in house building. We are one of the best performing district councils in the south east in this respect. The consequent NHB allocations helping to mitigate in part what can only be described as **devastating reductions in core funding of more than 65%** since 2010/11. Only to now find this funding stream at risk.

1.3.4 NHB was intended to be a powerful, permanent incentive to deliver new houses. The latest proposed changes further undermine the original objective of NHB and put some authorities, particularly district councils, financial sustainability at risk. As a result, it will come of no surprise that our preference is **for the pre-existing scheme and four years of payments to continue**. *But likelihood remote.*

1.3.5 The intention not to reintroduce the concept of legacy payments gives an in-year reward only which, all other things being equal, **of itself reduces the NHB allocation by 75%** from that received under the pre-existing scheme. To make up for that dramatic reduction would require a four-fold increase in the payment rate notwithstanding any increase in the baseline.

1.3.6 To put the current and suggested baselines into context based on each in-year reward is to be for one year only, no legacy payments:

Baseline	0.4%	0.6%	0.8%	1.0%
No. of Properties	237	356	474	593
NHB	£455,000	£282,000	£110,000	£0

1.3.7 Compared to the 2021/22 NHB allocation of circa £2.2m. **A reduction of at least £1,750,000 or 80%**. Each stepped increase in the baseline places additional and increasing funding pressure particularly on district councils and the services they provide. A higher payment rate, dependent on the rate and baseline used, **of little or no value** to many councils including high performing authorities that have done what was asked and encouraged housebuilding.

1.3.8 Clearly, in such a scenario, there is need for protection, as some authorities, particularly district councils, **financial sustainability will be at risk**.

1.3.9 You could be forgiven for thinking the consultation is more about reducing the size of the funding envelope to deliver a saving / redistributing resources than it is to do with 'sharpening the incentive' for continued housing growth. In that case **why**

not keep the basics of the scheme as now (albeit no legacy payments) and apply a three-fold increase to the payment rate and increase the baseline to 0.6% both in the interests of simplicity and transparency and to aid financial planning. Such a scheme delivering a significant saving on the requisite funding envelope compared to the pre-existing scheme.

- 1.3.10 To do more knowingly placing an untold number of councils' financial sustainability at increased risk.
- 1.3.11 Introducing further layers such as the new infrastructure levy, modern methods of construction and local plan progress into the NHB regime would **only complicate matters unnecessarily whilst adding little to 'sharpen the incentive'**.

1.4 Legal Implications

- 1.4.1 None.

1.5 Financial and Value for Money Considerations

- 1.5.1 Members no doubt are aware that NHB has formed a critical component of the Council's finances since its introduction receiving sums in excess of £3m under the original scheme and around £2m under the revised scheme following the 2015 consultation.
- 1.5.2 For medium term financial planning purposes, it was assumed there would be a replacement NHB scheme, but the funding envelope and sum awarded much reduced. In the latest iteration of the MTFS it is assumed overall government grant funding will reduce to £2.4m in 2023/24 and a hypothetical example of how that might be made up is business rates baseline (£1.5m) business rates growth (£200,000) and NHB replacement (£700,000).
- 1.5.3 What we might expect to receive following this latest consultation is not possible to determine other than it could be zero. Based on the hypothetical example above that would require the other elements of government grant funding to be higher than that assumed by some margin if the funding gap is not to increase.
- 1.5.4 Moving from £3m to £2m to £700,000 stark, moving from £3m to £2m to zero incredulous. But for now, suggest we 'take a deep breath' and wait to see what does come of these proposals.

1.6 Risk Assessment

- 1.6.1 Dependent on the outcome of the consultation the funding gap could be more than that currently reflected in the MTFS and, in turn, put financial sustainability at greater and greater risk.

1.7 Equality Impact Assessment

- 1.7.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.8 Recommendations

- 1.8.1 Cabinet is asked to:

- 1) **approve in principle** the indicative response to 'The Future of the New Homes Bonus: consultation' as attached at **[Annex 1]**; and
- 2) **give delegated authority** to the Leader and Cabinet Members for Finance, Innovation & Property and Strategic Planning & Infrastructure to make any appropriate adjustments to the indicative response should any new information need to be added in advance of the deadline of 7 April 2021.

Background papers:

Nil

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