

Technical Consultation – New Homes Bonus and the Local Growth Fund

Question 1: We would welcome views on the underlying principles of pooling the New Homes Bonus in this way, with specific regard to ensuring that pooled funding remains in the Local Enterprise Partnership where it originates and that the method of calculating the Bonus remains unchanged.

Comment – in my view, the underlying principles are simply wrong. This is moving the goal posts at half time and changing the shape of the ball as well. It contradicts all of the previous announcements on New Homes Bonus and its role as an important incentive to districts. It will leave a big hole in many authorities' budgets without creating a big enough resource for LEPs to kick start significant infrastructure projects. The following responses have been borrowed from an edited draft response by the Society of District Council Treasurers.

Draft Response - Fundamentally, we do not agree that New Homes Bonus funding should be top-sliced. It is our view that by doing so the Government will further dilute the use of the New Homes Bonus for the delivery of new homes. Whilst it is assumed these funds will support local growth in general, we are not convinced that it will lead to more new homes than would otherwise be the case if there is no top-slice.

The Government's main objective for the New Homes Bonus is clearly stated: *to incentivise local authorities to encourage new homes locally*. Whilst we acknowledge that the New Homes Bonus is one of several policies that are designed to promote and support economic growth and, specifically, the growth in housing, it is our view that, as in the first three years in which the Bonus has operated, individual local authorities are best placed to apply the funding in their local areas, and in consultation with their local communities, for the delivery of new homes and not Local Enterprise Partnerships. Indeed, it is in the interests of individual local authorities to do so as a means of generating more New Homes Bonus.

The pooling of New Homes Bonus will, in our view, further deepen the variation in individual local authorities spending power as there no is guarantee that Local Enterprise Partnerships will invest this additional funding in specific local authority areas. Indeed, acknowledging that some local authority areas are more likely to achieve economic growth given the inherent strength of their local economies, it is likely that local authorities in deprived areas will continue to fall behind more affluent areas as result of this proposal.

It should also be noted that by further limiting the ability of some local authorities to build new homes, there is an additional negative impact as it also limits the expansion of the Council Taxbase thereby inhibiting growth in the Council Tax yield. At a time when there are substantial reductions in core funding for local authorities and tight controls on increases in the Council Tax, expanding the Council Taxbase is one area of potential growth in income to pay for Council Services.

We would also remind the Government that a large part (c80%) of the New Homes Bonus funding has been taken from funds that would, otherwise, form part of the Control Total for Local Government funding in general (and was previously allocated via the Formula Grant). Whilst the New Homes Bonus Scheme provides an opportunity for local authorities to 'recover' this funding, the proposed 'top slice'

weakens this opportunity. This leads one to conclude that top-slicing New Homes Bonus funding in the way proposed is a further unnecessary reduction in funding

Turning to Local Enterprise Partnerships, there are two matters we would like to raise. Firstly, we are concerned that they are being provided with substantial amounts of funding, including the £400m referred to in this consultation, but do not comprise wholly democratically elected members. We note the Government's approach of bringing together Business and Local Authority Leaders to drive economic growth and we acknowledge the Government's guidance to Local Enterprise Partnerships on this matter, which stresses the need for decision on the Local Growth Fund to be supported by democratic accountability. But, it is important to us that District Councils are an effective part of the decision making process and we would like the Government to actively encourage Local Enterprise Partnerships to support this.

Secondly, there is significant variation in the size of Local Enterprise Partnerships (both in terms of geography and population) which we believe makes it difficult to engage local communities effectively about the use of funding. Again, this is a role that District Councils can perform and should not be ignored.

Finally, we consider it disingenuous that the Government is claiming to maintain its specific grant allocation of £250m for the New Homes Bonus into 2015/16 whilst prescribing that £400m should be taken as part of the Local Growth Fund.

Before responding to the remaining consultation questions, we have the following observations:-

- a) it is our view that the Government, and not Local Government, should take the risk of the overall value of the New Homes Bonus in 2015/16. As indicated, the value of the New Homes Bonus (£1,140 million) used in the simple exemplifications in the consultation document is a forecast by the National Audit Office. This appears to be based on the assumption that the value of the Bonus will continue to increase at the current rate, which we don't necessarily dispute, but for which there is no guarantee.

The Government's proposal is that the £400m top-slice will remain unchanged irrespective of the value of the New Homes Bonus generated in 2015/16. This means, therefore, that if forecast value of New Homes Bonus is not achieved, the percentage top slice will be higher, the burden of the cost being borne wholly by Local Government.

Our view is that Local Government's top-slice should be capped at 35% with any shortfall in funding met by the Government or, at the very least, shared equally with Local Government.

- b) similarly, we note in the initial guidance to Local Enterprise Partnerships on the development of Growth Deals that the Government '*may allocate up to £5billion of the £10billion identified for the period 2016/17 to 2020/21 in support of multi-year capital programmes in Local Enterprise Partnership plans*'.

In contrast, there is no mention in the consultation on New Homes Bonus about the funding arrangements post 2015/16. It is unclear, therefore, what this means for future New Homes Bonus allocations. As a consequence, some uncertainty about funding allocations has now been created whereas

Local Government has consistently requested the Government to provide greater certainty of future funding allocations. In essence, this is a further step backward.

We would, therefore, welcome further details of the Government's proposals post 2015/16 as part of its response on the outcome of this consultation.

Question 2: The first mechanism is that an equal percentage of all New Homes Bonus allocations will be pooled to the Lead Authority of their Local Enterprise Partnership, the precise percentage to be determined, but will be necessary to make £400m nationally. Do respondents consider this to be an appropriate method?

We do not support this proposal.

Whilst we acknowledge the simplicity of the proposed model, we do not believe it is in the best interests of District Councils as it will result in an estimated loss of c£120m in funding.

In this context, it is the case that New Homes Bonus funding makes up a greater proportion of the income of District Councils compared with other types of Council. This ranges up to 17% as a proportion of spending power in 2012/13, averaging 5%. Unitary, London and Metropolitan Councils range up to 3% as proportion of spending power in 2012/13 (*Source: National Audit Office Study of New Homes Bonus*).

Question 3: The second mechanism would act as described above for all areas with a single tier of local government. Where areas have two tiers of local government, the alternative distribution mechanism would operate whereby upper tier authorities would surrender all of their New Homes Bonus, with the balance coming from the lower tier. Do respondents consider this to be preferable method of pooling for two tier areas?

Of the options presented, this is our preferred option. We say this reluctantly as, in our estimates, this option will still result in a reduction in funding to District Councils of c£60m.

Question 4: Do respondents consider that the content of the proposed condition placed on the Section 31 Grant will be sufficient to enforce the local pooling of the New Homes Bonus funds?

Whilst we agree that a condition placed on the Section 31 Grant is a way to ensure that local authorities pass the appropriate proportion of NHB to the Local Enterprise Partnership, we are concerned that there will be no explicit obligations for Local Enterprise Partnerships to use the New Homes Bonus funding either:-

- a) specifically for activities associated with housing growth – this requirement will depend on the Local Enterprise Partnership's Strategic Economic Plan and will not be mandated. It is probable, therefore, that the Government's main objective for the New Homes Bonus - to incentivise local authorities to encourage new homes locally – will be further diluted as New Homes Bonus funds are potentially redirected to other growth priorities; or
- b) in the geographic area in which it was generated – there is a real threat, therefore, that those local authority areas that, as a consequence of the viability of their housing markets, have found it difficult to deliver more new housing will suffer even greater shortfalls.

As we have indicated above, to the extent that New Homes Bonus funding is not used specifically for activities associated with housing growth, it could further stifle housing development and inhibit some, if not all, Councils' ability to generate further growth (both in housing units and funding).

Question 5: The Government considers that the existing accountability arrangements for Local Enterprise Partnerships should apply to pooled funding as these are considered to provide sufficient safeguards for the protection of spending. Do recipients agree?

The Government has acknowledged that there are variations in the strength of the governance and accountability arrangements of Local Enterprise Partnerships across the Country. Safeguards must be put in place to cover the returning of funds to authorities if a Local Enterprise Partnership is dissolved or fails to agree on priorities and spend the money.

It is our view that there should be adequate opportunity for District Councils to influence the development of Strategic Economic Plans and that Local Enterprise Partnerships as a whole should be subject to the same regulations on openness and transparency as local authorities.

Question 6: Do recipients agree that locally pooled New Homes Bonus in London should pass to the Greater London Authority to be spent under existing arrangements?

No comment.

Question 7: Do you agree that where an authority is a member of more than one Local Enterprise Partnership, then the proportion to be pooled should be divided equally amongst the Local Enterprise Partnerships?

It is our view that where a local authority is a member of more than one Local Enterprise Partnership, it should be able to decide – locally via its own local democratic process – which Local Enterprise Partnership it should pass its New Homes Bonus funding to. This local decision could include, for example, the Government's proposal of an equal share but similarly would allow local authorities to support the Local Enterprise Partnership most likely to deliver growth in that local authority area.

Question 8 a: The Government proposes that where local authorities can demonstrate that they have committed contractually to use future bonus allocations on local growth priorities, Local Enterprise Partnerships should take this into account when determining their local growth plan and their priorities for using pooled funding. Do respondents agree with this proposal?

We agree that where Councils can demonstrate that New Homes Bonus funding has been committed, irrespective of whether such commitments relate to local growth priorities, any such commitments should be taken into consideration by the Local Enterprise Partnership.

In relation to determining whether Bonus Allocations have been committed to local growth priorities, it is our view that this should be determined in conjunction with the District Council's Growth Strategy and not necessary by the Local Enterprise

Partnership and their Strategic Economic Plan (although our expectation is District Council Growth Strategies should underpin the Strategic Economic Plan).

In particular, it is our view that:-

- a) it should be acknowledged that, in some cases, commitments may not always be contractual but may well be an extant resolution of the local authority to provide financial support (albeit within the statutory framework within which local government operates);
- b) equally, it should be acknowledged that some local authorities have, as a consequence of significant reduction in core funding (whether that is revenue support grant, capital grant funding or other external grant funding), had to use New Homes Bonus to support the delivery of activities/services associated with the delivery of new homes. To that end, income from New Homes Bonus is now an integral part of General Fund Revenue Budgets;
- c) similarly, in accordance with the original principles of the New Homes Bonus, it may be the case that local authorities have made 6-year commitments for funds which may not yet be contractual but are, nevertheless, calls on the funding which may be fundamentally affected by a decision to top-slice amounts at this stage;

We would like to point out that the Government's original intention was that phasing the Bonus across 6-years would protect local authorities from sudden changes in income; with these proposals, this intention appears to be a secondary matter;

- d) finally, some Councils will be working on projects which take significant time to develop. This may be a consequence of, for example, the timing associated with particular funding streams or the need for land assembly. As these projects are being developed, it is the case that some Councils have accumulated payments of New Homes Bonus and we would like assurance that these amounts remain unaffected by this proposal.

Question 8b: If respondents disagree with Q8a, are there alternative approaches for dealing with such commitments?

Please see our response to Q8a.

Question 8c: Are there other circumstances in which a spending commitment should be taken into account by the Local Enterprise Partnership?

Again, please see our response to Q8a.