

DERBYSHIRE COUNTY COUNCIL

CABINET MEETING

10 September 2013

Joint Report of the Director of Finance and the Acting Strategic Director -
Environmental Services

**NEW HOMES BONUS AND THE LOCAL GROWTH FUND
(COUNCIL SERVICES)**

(1) **Purpose of the Report** To agree the County Council's response to the Department for Communities and Local Government's consultation on the New Homes Bonus (NHB) and the Local Growth Fund.

(2) **Information and Analysis** The NHB was launched in April 2011. The NHB is an un-ringfenced grant paid by Government to local authorities for every additional home built or delivered through change of use or bringing empty homes back into use. The NHB is paid each year for six years for each additional property once it is occupied. There is an additional payment for each affordable home delivered. Lower tier authorities receive 80% of an area's NHB and the Council receives 20%. The Council's 2013/14 allocation is £0.466 million. This is in addition to the allocations for the 2011/12 and 2012/13, making the total allocation for 2013/14 £1.306 million.

The Department for Communities and Local Government is consulting on how to take forward proposals to pool £400 million from the NHB into a new Local Growth Fund for Local Enterprise Partnerships (LEPs) to support strategic, locally-led, economic growth priorities in 2015-2016. The consultation can be accessed by following the link below.

<https://www.gov.uk/government/consultations/new-homes-bonus-and-the-local-growth-fund-technical-consultation>

This consultation proposes to allocate the NHB to local authorities as normal, but then to require local authorities to pool funding within LEP areas (to a total of £400 million nationally) with the lead authority for each LEP holding the funding.

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The proportion to be pooled will be set centrally to ensure the national total is reached.

The consultation seeks views on two alternative pooling mechanisms. The first is a flat rate percentage of all NHB to be pooled at LEP level, with all authorities contributing an equal proportion of their allocation. The consultation indicates that this proportion could be 35%.

The second mechanism would see a different approach for areas with upper and lower tier local authorities, whereby upper tier authorities would contribute all of their New Homes Bonus allocation and lower tier authorities would contribute a smaller proportion of their allocation.

The Government's reasoning for the second mechanism is that, in its view, there is synergy between the role envisaged for LEPs and the Local Growth Fund and that of upper tier authorities. The Government is also of the view that the NHB forms a lower proportion of overall spending power for counties than for other authorities.

Where a local authority is a member of more than one LEP (as is the case for Bolsover District Council, Chesterfield Borough Council, Derbyshire Dales District Council, and North East Derbyshire District Council), the Government proposes that the Authority's contribution would be split equally between those LEPs.

The Government proposes that the pooled grant would be un ringfenced and LEPs would be free to use the pooled grant as part of the Local Growth Fund to fund their strategic economic plan.

The Government has published guidance for LEPs which includes an expectation that they should engage with local authorities and other partners when developing their strategic economic plans. The Government considers that existing accountability arrangements for LEPs are sufficient safeguards for the spending of any pooled funds.

These proposals raise concerns which are set out in detail in the County Council's proposed formal response in Annex A, and which can be summarised as follows:

- It is disappointing that the Government is proposing to top-slice existing County Council budgets rather than provide new money.

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- There is no guarantee that the top-sliced funding will benefit infrastructure delivery in Derbyshire.
- The County Council, whilst working hard to develop strong partner relationships with Sheffield, believes that these proposals provide added complexity which may hamper growth in Derbyshire.

(3) **Financial Considerations** The Council's NHB allocation for 2013/2014 is £0.466 million. Under the Government's proposals, the Council would see either a proportion or the entirety of its NHB allocation reallocated to LEPs.

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

(5) **Key Decision** No.

(6) **Call-in** Is it required that call-in be waived in respect of the decisions proposed in this report? No.

(7) **Background Papers** Reports on the New Homes Bonus were taken to the County Council's Cabinet in January and June 2011. These reports are held on file by the Planning Services Manager. Officer contact details - Harriet Fisher, extension 39551.

(8) **OFFICER'S RECOMMENDATION** That Cabinet approves the letter as set out at Annex A as the County Council's formal response to the Department for Communities and Local Government consultation on the New Homes Bonus and the Local Growth Fund.

Peter Handford
Director of Finance
Corporate Resources

Mike Ashworth
Acting Strategic Director
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Annex A

Secretary of State for Communities
and Local Government
C/O Consultation Coordinator
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Dear Rt Hon. Eric Pickles MP

Consultation on the New Homes Bonus and Local Growth Fund

Thank you for consulting Derbyshire County Council on the New Homes Bonus and Local Growth Fund. Please see below for our response.

The Council is disappointed that Government has chosen to top-slice the new Homes Bonus. At a time when many local authorities are facing significant pressures on services as a result of the reductions in Revenue Support Grant and the business rates retention scheme, the decision to top-slice the New Homes Bonus does little to aid local authorities medium term financial planning. The Council was surprised by the announcement of the top-slice as set out in the *Investing in Britain* paper published alongside the Spending Round in June. Up until that point, there has not been any indication that the New Homes Bonus would be top-sliced and targeted to the Single Growth Fund. In the Government's response to the Lord Heseltine's report *No Stone Unturned*, there was no indication that the New Homes Bonus would assist in creating the Single Local Growth fund.

The Government's Spending Review in October 2010 offered more flexibility to councils by "ending ring-fencing of all revenue grants from next year", so it is disappointing that conditions will be set against the Section 31 grant.

The New Homes Bonus Design Scheme stated that the grant for new Homes Bonus will be payable for six years. By year six, the Government expected the cost to be over £1bn per annum. The Government initially allocated £200m to fund the scheme in 2011/12. The following three years, £250m per annum was allocated with funding beyond these levels coming from Formula Grant/Business Rates Retention Scheme.

The Council would like the Government to confirm in the response to the consultation whether it has given consideration to the prospect of New Homes Bonus increasing

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above the £1.1bn estimated? If so, the Council urges Government to confirm how it will be funding the increase over and above the £1.1billion i.e. will local authorities bear the brunt of a further cut in Revenue Support Grant in 2015/16?

The mechanism for returning the surplus is outlined in the *Local Government Finance Settlement 2014/15 and 2015/16: Technical consultation* document published by Government. It states that surplus funding will be returned to local authorities through Section 31 grant. The Council has previously argued that this mechanism does not aid the budget setting process. The Council sets its budget in early February each year and therefore estimating the amount of the residual payment of any New Homes Bonus surplus for 2015/16 is difficult. This has been highlighted during the recent Provisional/Final Local Government Finance Settlement for 2013/14 when the Government set aside £25m for Safety Net Payments under the Business Rates Retention Scheme, only for the Government to find that the amount was insufficient to support the safety-net amounts, because it had underestimated how much financial protection local authorities needed against fluctuations in business rates income.

The consultation document does not clarify whether the £400m top-slice relates to 2015/16 only or whether the cut is on-going and the Council expects Government to confirm this as soon as possible.

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 Area where it originates and that the method of calculating the Bonus remains unchanged.*

Response: The consultation seeks views on the underlying principles of pooling the New Homes Bonus. The New Homes Bonus was established to incentivise growth and reward communities for the development taking place in their area. It is an important funding stream for delivering critical infrastructure required to support sustainable development and the delivery of Local Plans.

The Heseltine report “No Stone Unturned” anticipated new funding streams to deliver the Government’s Growth Agenda, however this proposal sees the removal of existing local authority funding top-sliced to an external body that is not directly responsible for the delivery of statutory services and infrastructure with no guarantee of this funding being returned to its original source.

In addition, the proposal to transfer NHB to the Single Growth Fund is considered a method of ring fencing part of a grant which was previously unhypothecated. For these reasons the Council does not support this proposal.

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If the Government decides to pursue the proposal to pool funding from the New Homes Bonus into the Local Growth Fund, authorities in Derbyshire and Nottinghamshire will work together with the LEP to decide how best to invest the funding and to ensure that the funding remains in the LEP area from where it originated.

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 LEP, the precise percentage to be determined, but will be that necessary to make £400m nationally. Do respondents consider this to be an appropriate method?*

Response: If the Government is to proceed with its proposals, the Council expects Option 1 to be used in that it feels that the upper tier authority should not be penalised and urges Government to consider the principles of Government funding i.e. fairness and transparency.

In order to assist local authorities, the Council urges Government to send notification of the amount to be pooled from each council as soon as is practical, rather than wait until the publication of the Provisional Finance Settlement.

The consultation document asks whether the second mechanism for local authorities would be financially sustainable. The Council is of the opinion that neither option is financially sustainable.

Question 3: *The second mechanism would act as described above for all areas with a single tier of local government (unitary authorities, metropolitan boroughs, etc). Where areas have two tiers of local government (lower tier district councils and upper tier counties) 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 a preferable method of pooling for two tier areas?*

Response: No. Neither option is ideal.

The County Council plays a crucial role in delivering the infrastructure required to deliver Local Plans and support new development. Much of the strategic infrastructure delivered by the County Council (for example roads and schools) is often more expensive and more complex to deliver than local infrastructure (for example play areas).

For this reason, when the New Homes Bonus scheme was first proposed, the County Council responded to the Government stating that the 80/20 proportional split in funding between lower and upper tier authorities did not accurately reflect the real burden of cost in delivering the services and infrastructure required to support new development.

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Therefore, it is a concern that the Government is of the view that the County Council's key role in providing the statutory services and strategic infrastructure that are so critical to supporting local communities is equal to the role envisaged for LEPs.

The principle of reallocating any funding from local authorities to LEPs is not desirable. However, the second mechanism, which would see all of the County Council's New Homes Bonus reallocated to the LEPs, is particularly inequitable and is not an acceptable option.

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?*

Response: Again, the Council would re-iterate its earlier point that we are disappointed to see ring-fencing being introduced into grant streams, when the Government has already made a clear commitment to reduce ring-fencing in funding streams.

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

Response: No.

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?*

Response: No Comment.

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

Response: No, this proposal is very simplistic; allocating grant on the basis of taxbase or population would better reflect the way in which the income has been generated.

Bolsover District Council, Chesterfield Borough Council, Derbyshire Dales District Council, and North East Derbyshire District Council are within two LEP areas (D2N2 and the Sheffield City Region).

The Government's proposal for authorities within more than one LEP area to split their contribution equally between those LEPs is a concern.

If the Government decides to pursue their proposals to pool funding from the New Homes Bonus into the Local Growth Fund, a proportional contribution should be made to each LEP based on where the funding originated from (i.e. the local authority area where the additional homes that generated the New Homes Bonus were delivered).

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This would ensure that funding remains within the area where growth is taking place to help provide the services and infrastructure required to deliver that growth.

The County Council remains to be convinced that joint working in the overlap areas in the SCR will deliver appropriate infrastructure investment in Derbyshire.

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

Response: Yes.

If the Government decides to pursue their proposals to pool funding from the New Homes Bonus into the Local Growth Fund, LEPs should take into account existing contractual commitments when preparing their economic growth strategies.

Question 8b: *If respondents disagree with question 8a are there alternative approaches for dealing with such commitments?*

Response: Not applicable.

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

Response: Yes.

LEPs should take into account spending priorities and commitments set out in Infrastructure Delivery Plans and Local Plans in order to ensure that economic growth strategies align fully with local authorities' proposals for growth.

Yours Sincerely

Joan Dixon
Cabinet Member – Jobs, Economy and Transport