

POLICY & RESOURCES COMMITTEE

17 FEBRUARY 2016

Is the final decision on the recommendations in this report to be made at this meeting?

Yes

CONSULTATION ON NEW HOMES BONUS

Final Decision-Maker	Policy & Resources Committee
Lead Head of Service	Head Of Finance & Resources
Lead Officer and Report Author	Head Of Finance & Resources
Classification	Public Report
Wards affected	All

This report makes the following recommendations to this Committee:

1. That the Committee agreed the proposed responses to the consultation, as set out in Appendix B, and instruct officers to complete the only response questionnaire.

This report relates to the following corporate priorities:

The medium term financial strategy and the budget are a re-statement in financial terms of the priorities set out in the strategic plan. It reflects the Council's decisions on the allocation of resources to all objectives of the strategic plan.

The Capital Programme identifies key projects requiring long term funding to improve assets and regenerate the borough.

Timetable

Meeting	Date
Policy & Resources Committee	17 th February 2016

CONSULTATION ON NEW HOMES BONUS

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 In December 2015, along with the provisional local government finance settlement the Department for Communities & Local Government announced a technical consultation on New Homes Bonus.
 - 1.2 The consultation document is titled "New Homes Bonus: Sharpening the Incentive". It seeks views on options for change on two aspects of the Bonus.
 - 1) Reducing overall costs by reducing the time period over which the Bonus is received; and
 - 2) Reforming the incentive to better reflect local authorities' performance on housing growth.
 - 1.3 This report sets out the background to the New Homes Bonus, briefly explains the current method of calculation and proposes a response to the 14 questions in the consultation document.
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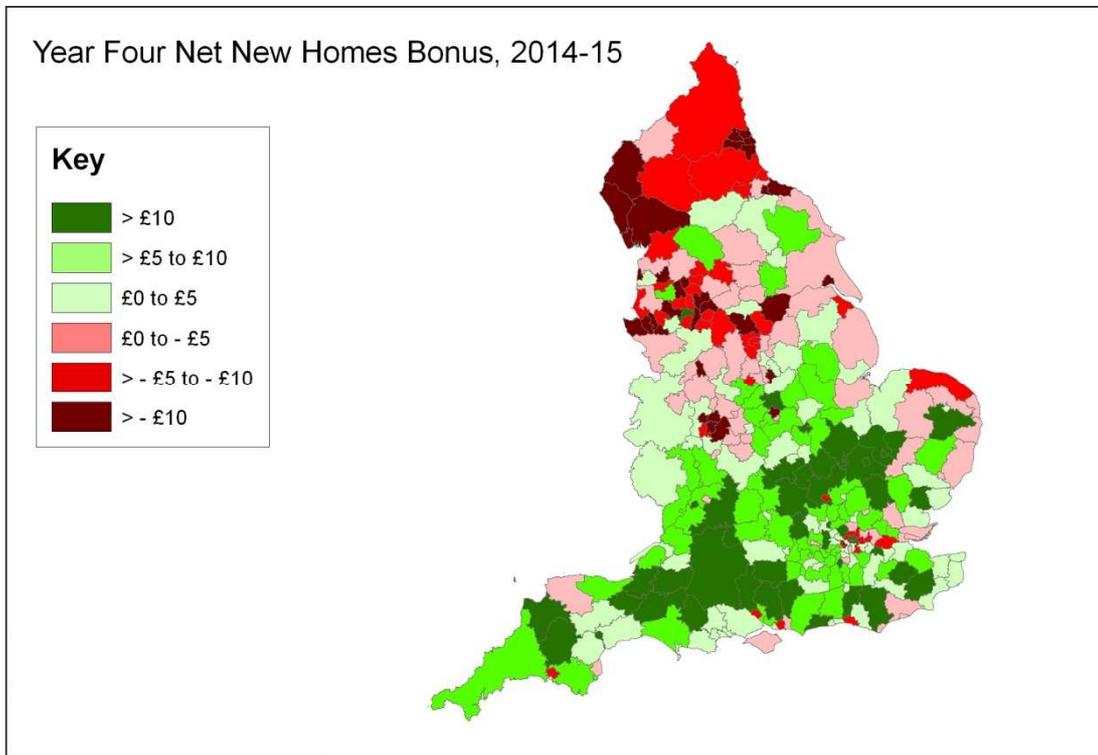
2. INTRODUCTION AND BACKGROUND

- 2.1 The new homes bonus incentive was introduced from 1st April 2011. The government's view is that it "reflects the crucial role local authorities play in supporting housing and wider economic growth by rewarding additional homes built in their areas".
- 2.2 In 2014 the government completed an evaluation of the process and the effectiveness of the incentive. The findings were taken into account in the Spending Review 2015 and have resulted in a technical consultation "New Homes Bonus, Sharpening the Incentive". Reproduced at **Appendix A**.
- 2.3 As a part of the 2015 Spending Review the government announced the intention to move to 100% retention of business rates by 2020 while generating savings of at least £800 million. The 50% central portion of the current business rates system is used in part to fund the payment of the Bonus.
- 2.4 On commencement of the scheme in 2011 the government had set aside £250 million residual funding from the Housing and Planning Delivery Grant and recognised that longer term funding would be required from the National Non-Domestic Rates system that existed prior to retained business rates. In the first year of the incentive some £200 million was paid out. In 2016/17 the incentive is expected to cost central government £1.5 billion.
- 2.5 The incentive is paid on the increase in property shown on the annual council tax taxbase return to central government. There is then an adjustment, either positive or negative, for the movement in the number

of long term empty homes in the borough and an increased payment for each affordable home built. The value of the payment is the equivalent of the national average band D council tax for each band D equivalent property gained. In two tier areas the payment is made 80% to the district council and 20% to the county council.

2.6 In Maidstone the payment has been a significant sum, in most years the Council has received the highest award in Kent. Nationally the South East of England is reported to have received the greatest benefit from the bonus.

2.7 The 2014 review produced the following heat map of the winners and losers. This is produced from the net difference between funding from "the bonus paid" less "the loss of grant that would otherwise have been distributed by the national formula".



2.8 Income received by Maidstone and the predicted future income stream from the bonus is set out in the following table:

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
2011/12	892,316	892,316	892,316	892,316	892,316	892,316				
2012/13		903,336	903,336	903,336	903,336	903,336	903,336			
2013/14			1,152,721	1,152,721	1,152,721	1,152,721	1,152,721	1,152,721		
2014/15				792,038	792,038	792,038	792,038	792,038	792,038	
2015/16					565,873	565,873	565,873	565,873	565,873	565,873
2016/17						781,610	781,610	781,610	781,610	781,610
2017/18							558,000	558,000	558,000	558,000
2018/19								558,000	558,000	558,000
	892,316	1,795,652	2,948,373	3,740,411	4,306,284	5,087,894	4,753,578	4,408,242	3,255,521	2,463,483

- 2.9 The government's consultation document sets out proposals for change to the incentive from 2017/18.
- 2.10 The first proposal is to shorten the period over which legacy payments are made:
- 1) At present the first year payment is made on 1st April each year using data for the 12 months prior to the October of the previous year. For the 2016/17 payment the data is October 2014 to October 2015.
 - 2) Following that first year payments the amount is paid for five legacy years completing a six year cycle to each year's Bonus payment.
 - 3) The government is proposing to reduce the cycle to four year. The initial year followed by three years of legacy payments.
 - 4) The government considered an option of one year or two years less than the four year period but does not propose it as their primary choice.
- 2.11 In addition the Government has questioned the data source for calculating the increase in housing. The current data comes from the Council Tax system and is controlled by the Council although it is reconciled to data held by the Valuation Office Agency.
- 2.12 The second proposal is to improve the incentive and while the various proposals made do have the potential to impact upon the incentive many of them also have a financial consequence. In summary the proposals are:
- 1) To not pay the Bonus if a local plan has not been submitted or a variant related to its age measured by date of adoption;
 - 2) To not pay for homes built on appeal or a variant based on a percentage reduction;
 - 3) Creation of a national baseline below which payment of the Bonus will not be made;
 - 4) Adjustment of the above baseline where unexpectedly high housing development occurs which is therefore unaffordable in Bonus terms.
- 2.13 The review also questions whether the impact should be extended to county council and whether there should be transitional protections.
- 2.14 The consultation asks for respondents' views on 14 questions covering these areas. Each question, a brief explanation and a proposed response is set out in **Appendix B**. The Committee is asked to consider the consultation document, review the responses and amend any they see fit prior to approving the response for return to central government.
- 2.15 It should be noted that the government have requested responses through an online process rather than by mail.

3. AVAILABLE OPTIONS

- 3.1 Option 1: The Committee could consider the consultation and chose not to respond. This is not recommended because the Council is a net gainer from the current system and any changes are likely to be detrimental to

the Council's future financial plans. Responding to the consultation enables the Council to put forward its views on the government's proposals while they are at a formative stage.

- 3.2 Option 2: The Committee could chose to respond using the proposed responses in Appendix B as a template or draft and amending as necessary.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The preferred option is Option 2 at paragraph 3.2 above. The government proposals set out in the consultation and summarised in this report could have a significant financial impact upon this authority and it is essential that the government is aware of the potential impact upon infrastructure and by consequence the Council's ability to deliver new housing.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The government has set a timeline for the publication of its response document if "within three months of the close of consultation" which is 10 March 2016. The government will therefore publish details of the responses and its view before 10th June 2016..

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The decision of the Committee will be acted upon following the required period for referral through the onine response requested by the government.
- 6.2 The potential outcome of the government's proposals have been included in the proposed Capital Programme elsewhere on this agenda as it covers a period after 2017/18.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	<p>The capital budget funded from New Homes Bonus provides resources for the achievement of the Council's priorities that require capital investment.</p> <p>The MTFs has been developed with the funding levels expected if the outcome of the</p>	Head of Finance & Resources

	consultation means the government acts upon the proposals it has set out.	
Risk Management	The development of the medium term financial strategy and the budget for 2016/17 supports the mitigation of the strategic risk of not	Head of Finance & Resources
Financial	The MTFS impacts upon all activities of the Council. The future availability of resources to address specific issues is planned through this process.	Head of Finance & Resources
Staffing	No direct impact	Head of Finance & Resources
Legal	The report and the recommendations it proposes.	Head of Finance & Resources
Equality Impact Needs Assessment	The objective of the MTFS is to match.	Head of Finance & Resources
Environmental/Sustainable Development	None identified	Head of Finance & Resources
Community Safety	None identified	Head of Finance & Resources
Human Rights Act	None identified	Head of Finance & Resources
Procurement	None identified	Head of Finance & Resources
Asset Management	Resources for management and maintenance of the Committee's assets are included within the capital programme and could be affected by reductions in New Homes Bonus.	Head of Finance & Resources

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: New Homes Bonus: Sharpening the Incentive – Technical Consultation Document
- Appendix B: Explanations and Proposed responses to the Consultation Questions.

9. BACKGROUND PAPERS

None