

**EXETER CITY COUNCIL****EXECUTIVE****6 DECEMBER 2011****PROPOSED USE OF NEW HOMES BONUS****1 PURPOSE OF REPORT**

- 1.1 The purpose of this report is to brief Executive on New Homes Bonus (NHB) and to propose principles for how it should be used.

**2 BACKGROUND**

- 2.1 NHB was introduced in February 2011 following a period of public consultation. NHB is intended as an incentive to encourage local authorities to facilitate housing growth. The bonus was first paid in 2011/12.
- 2.2 The bonus is calculated using three elements. The net addition to dwellings on the Council's valuation list at 1 October each year is calculated for each of the eight bands (A-H). This is then adjusted to subtract dwellings that have been vacant for over six months at 1 October. The bonus is then calculated based upon the national average Council Tax, presently £1439.22 for Band D. An additional element for new affordable housing is paid at a standard rate of £350 per home calculated from local authority returns for the previous financial year that is published in October. The affordable housing element is only paid from 2012/13.
- 2.3 In two tier areas, 80% of NHB is payable to the district authority and 20% to the County Council. The sum earned from each calculation year is paid for six successive years and is not ring fenced. This means for an average Band D home a district council will receive £1151.37, for six years (80% of £1439.22) , a total of £6,908.25 per home.
- 2.4 At current levels of housing completions, NHB will cost Government £1.2 billion per annum by year six; it may reach £2 billion if national housing targets are reached. There will be consequential reductions in formula grant to cover the costs.
- 2.5 Planning Member Working group was briefed on the background to NHB in June 2011.
- 2.6 Annual NHB awards for financial years are calculated on the basis of data that is assembled and published around October of the preceding year. Government has indicated that there will be a consultation process on draft awards before final awards are announced. While the Council will be able to make short and medium term estimates of future awards, and therefore the likely size of the infrastructure funds, it is considered that decisions on the use of funds should be made annually following the actual receipt of the bonus for that year and not forward allocated well in advance.

**3 NHB IN EXETER**

- 3.1 Exeter received £389,165 in NHB for 2011/12. It is estimated that we will receive about £935,000 in 2012/13 calculated as about £870,000 for the change in occupied dwellings plus £65,000 for the affordable housing element.

- 3.2 The Council's emerging Core Strategy proposes an average rate of 600 homes per annum. At an average Band C (£1023.45 per home) this would generate about £614,000 per annum. There would be a reasonable prospect of the Council earning about £40,000 per annum from the affordable housing element if the Council achieved about 140-150 homes per annum. The total average award might therefore be about £650,000 per annum. If poor housing market conditions persist this figure may be optimistic, there seems to be a reasonable prospect of averaging over £500,000 per annum.
- 3.3 The best estimate of the total NHB fund is:

Year paid	New NHB award	Total annual award
2011/12	£389,000	£389,000
2012/13	£935,000	£1,324,000
2013/14	£540,000	£1,864,000
2014/15	£540,000	£2,404,000
2015/16	£540,000	£2,944,000
2016/17	£540,000	£3,484,000

- 3.4 If NHB is retained in the longer term then there is a reasonable prospect that the Council will receive £3-4m per annum on a regular basis.

#### **4 USE OF NEW HOMES FUNDING**

- 4.1 The purpose of NHB is to incentivise councils and communities to facilitate growth. In recent years communities in Newtown and St James have experienced pressure from purpose built student accommodation; and strategic sites such as Newcourt will provide challenges for the new community. However, Exeter is a compact city and developments have local and strategic impacts, for example, traffic generated by developments can impact on the whole city; growing population places pressure on both local and city wide facilities. Some of the strategic developments, such as Newcourt and Hill Barton/Monkerton will have facilities provided by the development. However, some existing areas of the city have a deficiency of community facilities and would benefit from new investment. Therefore, it is proposed to use NHB in the following ways:

- The explicit intent of NHB will be to direct benefits from new development to the whole of the Exeter community
- 50% of the NHB will be identified for a major infrastructure fund to provide a significant capital project that benefits the whole city, such as a new swimming pool and the Council's affordable housing programme.
- 30% of NHB will be for localised community infrastructure that will address existing deficiencies in local facilities, such as a lack of meeting halls, and to meet the anticipated additional pressures that will be put on existing facilities directly as a consequence of an increasing population. There is a recognition that localities with new development, such as Newtown in the case of purpose built student accommodation, will benefit from NHB.
- A staffing resource will be required to support the implications of the localism bill, support of greater community engagement, and in planning to enable the Council to maximise future awards of NHB. There will be different skills required to assist communities with capital projects and preparing plans.

£100,000 per annum from 2012/12 will be identified for capacity building and technical studies

- To support the development of Neighbourhood Plans, a sum of £100,000 will be set aside over the next five years.

## **5 MAJOR INFRASTRUCTURE FUND**

- 5.1 It is proposed that 50% of NHB be devoted to this fund. The annual allocation to the fund is likely to reach about £1.73m by 2016/17 and could generate a total pot of £20 - 30m over the period to 2025/26 covered by the Council's Core Strategy.
- 5.2 Decisions on the use of the major infrastructure fund will also need to have regard to the Council's Infrastructure Delivery Plan (IDP) and the proposals for the use of the proposed Community Infrastructure Levy (CIL). CIL is expected to yield about £50 m in the period to 2025/26.
- 5.3 It is proposed that Executive receive a report in due course on the details of the establishment of a Major Infrastructure Fund. This will need to include full details of how the fund will operate; in practice Members could keep this fairly straight forward with the NHB constituting an income stream to support a defined capital programme under the heading major infrastructure fund.

## **6 LOCAL INFRASTRUCTURE FUND**

- 6.1 The Local Infrastructure Fund is intended to support smaller scale projects at the local level. This might include environmental or open space enhancements or new or improved community buildings. New community facilities on strategic sites such as Hill Barton/Monkerton and Newcourt are likely to have facilities provided through the section 106 agreement, however, in the short term the community may require revenue support to run the hall until such time as the community has matured and is capable of managing the halls.
- 6.2 It is proposed that there be a system of bids for projects against the fund and a mechanism to be determined for Members to assess priorities and allocate awards. The money would then be distributed on the basis of project merits not location. Clearly members may want to reflect locations in their priorities based on perceived impacts arising from particular developments.
- 6.3 The Local Infrastructure Fund might secure 30% of the NHB after the top-slice allocations. The fund should reach in excess of £0.8m per annum by 2015/16, and £1m in 2016/17.
- 6.4 Government proposes that a 'meaningful proportion' of CIL also be allocated towards local communities. Any Local Infrastructure Fund could also be used as a mechanism to allocate a proportion of the Council's CIL receipts.
- 6.5 The Council would need to decide upon an appropriate threshold as a guideline for the scope of any major and local infrastructure funds.
- 6.6 It is proposed that Executive receive a report in due course on detailed proposals for the establishment and implementation of a Local Infrastructure Fund. The key protocols for funding could include the following principles:

- Funding should be made available for all communities, not just those wards affected by development. The key message however is this funding is available as a direct result of development.
- The Council will need to support the process by ensuring that adequate provision is made for those communities in wards who may not be in a position to develop a bid for funding. This might be through direct or commissioned support.
- Funding cannot be spent until it has been received, ie funding commitments are made against actual budget received and/or amounts determined by the NHB formula

6.7 It is recommended that a New Homes Bonus Panel should be established to determine the allocation of funding to communities based on set criteria. The terms of reference should include the following:

- The Panel identifies local priorities
- Determines a work programme on an annual basis to determine which projects will be taken forward and whether monies will be banked in that year, or pooled to spend on a joint project.
- Each ward will develop proposals, supported by their ward councillor(s) for submission to the Panel.
- Reports directly to Executive and comprises, as a suggestion, Leader, Portfolio Holders for Housing and Communities and Sustainable Development and Transport and representatives of the political groups.
- Responsible for making recommendations to Executive on the allocation of NHB funds to communities based on set criteria
- To give consideration to the delivery implications of proposals in neighbourhood plans
- Establish a clear code of practice

## **7 INVESTMENT IN CAPACITY**

7.1 The Council needs to continue to invest in the planning and housing functions to ensure that it maximises the amount of NHB that is earned.

7.2 The majority of NHB will be earned by the development of new homes that subsequently appear on the valuation list. The Council has benefited significantly from recent developments of purpose built student accommodation that account for about half the projected award for 2012/13. Student developments are likely to decline, the Council needs to continue to support staff capacity in the new City Development service to secure the early and rapid implementation of the strategic development areas at Monkerton and Newcourt.

7.2 While the majority of NHB is awarded for additional properties created through the planning process, numbers are adjusted for changes in long term (over six months) vacant homes. The Council had 250 such homes at October 2010 representing about 0.5% of the stock. This is less than the national average of about 1.16%. The number increased to 292 at October 2011. This increase of 42 homes 'costs' the Council about

£290,000 of lost NHB over six years. There is a danger that vacancy levels will rise due to the economic climate and changes in the student housing market.

- 7.3 NHB also includes the element paid on additions to the stock of affordable homes. A successful Council programme of 150 affordable homes per annum would yield new NHB awards of £42,000 per annum. This would build up to £252,000 per annum after six years.
- 7.4 The Council's Housing Enabling team delivers new affordable homes and tackles long term empty homes. It is important that the team also remains adequately resourced to maximise the bonus and to deliver affordable housing which is a Council priority.
- 7.5 The localism bill will also have significant implications beyond planning and housing staff. The Communications Team will be called upon to publicise available funds, convey messages regarding incentivising new development, and will seek to develop reputational value to the Council by being in the forefront of this approach. Community Involvement and Support will be required to develop bids, working with ward councillors to engage with established groups, support the development of new groups, signposting to capacity building support, and supporting planning officers working with communities in developing Neighbourhood Plans.

## **8 MEDIUM TERM FINANCIAL PLANNING**

- 8.1 The Council's formula grant is presently about £9.28m per annum. Nationally, if housing targets are achieved the Government would need to fund about £2 billion per annum of NHB from top slicing formula grants. If this reduction was applied evenly it would result in reductions of about 8.5%, a maximum of £800,000 in Exeter's case. Assuming an even 8.5% reduction across the board might be considered optimistic. Based upon 2011/12 the districts received 35% of all the NHB but only receive about 4% of the total formula grant allocation. Therefore Government may come under pressure from the county councils to change this split. One could also speculate as to whether all future governments will be committed to this scheme or will the funding disappear. Will the current 80/20 split remain between us and the County? Therefore, there is merit in being cautious, not fully committing all the NHB funding, and limit initial commitments to funding that we know has been received and will not be lost. This does require some management of expectations and a financial discipline to be built into the terms of reference of the proposed NHB Panel.

## **9 RECOMMENDATION**

- 9.1 That members note: a) the anticipated allocation of New Homes Bonus for 2011/12 and b) that beyond 2012/13 there is some uncertainty about the long term funding of new homes bonus and therefore it would be prudent to limit financial commitments to the short term, providing Executive with the opportunity to review proposals for expenditure associated with the NHB when the Government finally publishes policies and guidance for funding local government.
- 9.2 It is recommended that Executive agrees that New Homes Bonus be used with regard to the following principles:
  - i) That NHB funding will be used to direct benefits from new development to the Exeter community
  - ii) That on the basis of the current assumptions about NHB 50% of the NHB funding received will be ring fenced for major infrastructure works to meet

city wide priorities, such as the provision of a new swimming pool and the revenue implications of the Council's affordable housing programme;

- iii) That in the short term 30% of the NHB funding received will be ring fenced for local community infrastructure on the basis that funding commitments can only be made against income received;
- iv) That a NHB Panel shall be established to oversee the allocation of the local community infrastructure fund;
- v) That a further report be considered by Executive on the detailed proposals for the New Homes Bonus Panel and the role of the ward member (s) in bringing forward proposals for funding;
- vi) That £100,000 is made available to support the production of neighbourhood plans over the next five years.
- vii) That Executive recognises the resource implications of supporting this programme and funding will be made available for capacity building and technical studies.

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**Local Government (Access to Information) Act 1985 (as amended)**

**Background papers used in compiling the report:**

None