

## EXETER CITY COUNCIL

EXECUTIVE  
17 SEPTEMBER 2013

### PROPOSED RESPONSE TO TECHNICAL CONSULTATION ON 'NEW HOMES BONUS AND THE LOCAL GROWTH FUND'

#### 1.0 PURPOSE OF REPORT

- 1.1 To consider a proposed City Council response to the current Government consultation seeking views on suggested mechanisms for the pooling of £400million of New Homes Bonus through local enterprise partnerships to support strategic housing and other local economic growth priorities.

#### 2.0 BACKGROUND

- 2.1 New Homes Bonus (NHB) was introduced in 2011 to provide an incentive for local authorities and communities to welcome growth. It is paid on the basis of annual (to 1 October) increases in total homes on the Valuation List, by band, at the national average Council Tax rate (Band D £1,439), adjusted for changes in long term empty homes. In two tier areas, 80% is paid to the District Council and 20% to the County Council. It is paid for the following six years and therefore builds up cumulatively to 2016/17. It is an un-ringfenced award, Councils can spend it on what they like. It is largely funded by reductions in local authority Revenue Grant.
- 2.2 Exeter has been very successful in earning NHB largely due to high student housing completions and a low and relatively stable rate of long term empties. Exeter secured £2.205m of NHB in 2013/14. If it continues to secure NHB through housing completions in accordance with the adopted Core Strategy (600 homes per annum), then it should secure about £3.5m in 2015/16 and £4.15m in 2016/17 and 2017/18.
- 2.3 About £200-£250million of NHB is earned by English local authorities every year. By 2015/16 the total value of awards is expected to be about £1,140 million.

#### 3.0 GOVERNMENT PROPOSAL

- 3.1 The Chancellor announced, on 26 June, the creation of a £2billion Local Growth Fund from 2015/16 that would contain £400million of NHB funding, pooled locally at the Local Enterprise Partnership level to support economic growth priorities, including housing. The proposal to fund LEPs gives effect to Lord Heseltine's 2012 report 'No Stone Unturned in Pursuit of Growth'.
- 3.2 This proposal will top slice about 35.1% of NHB funding from local authorities in 2015/16 reducing to about 30% in future years.
- 3.3 Government is consulting on two alternative mechanisms for pooling contributions. The first involves all local authorities contributing an equal percentage. The second proposes that in two tier areas Counties would surrender all of their 20% allocation and Districts the remainder.
- 3.4 In Exeter's case, the first mechanism would involve Exeter pooling £1.225m of its projected £3.5m for 2015/16 and Devon £245,000 of its projected £700,000. The second mechanism would involve Exeter contribution £0.775m and Devon its entire £700,000. The cost to Exeter in 2015/16 is therefore likely to be a loss of £0.775m or

£1,225m of NHB, however, it may gain from how the LEP allocates use of the pooled funds.

- 3.5 The Heart of the South West LEP, covering Devon, Plymouth, Torbay and Somerset is one of 39 LEPs. Its constituent authorities earned about 4.3% of NHB in 2013/14. If this proportion continues at 2015/16 then the South West LEP might secure about £17.2m of the £400m.
- 3.6 Government is aware that some local authorities have entered into commitments based on anticipated NHB receipts in future years. It seeks through the consultation to understand the extent and impact of this issue and to identify ways to mitigate any risk to local investments.
- 3.7 Devon authorities met with the Government NHB policy team on 30 August to discuss the implications of top slicing NHB.

#### **4.0 DISCUSSION**

- 4.1 NHB is intended to incentivise local authorities and communities to accept growth. In the context of ongoing reductions in Revenue Grant funding it has become a significant element of district council funding. The top slice will severely blunt the incentive since 35% of NHB could now be spent anywhere in an area from Plymouth to Wincanton that may not reflect or serve the communities accepting growth. It will take resources from local authorities that have had over two years to develop spending plans for NHB and pass it to the LEPs where there are no plans presently in place to use the funds. Local communities are likely to share concerns that part of NHB earned by development in Exeter may be spent elsewhere. It will be important to articulate those potential concerns.
- 4.2 Government proposes that where local authorities can demonstrate that they have committed contractually to use future NHB allocations on local growth priorities, that LEPs should take this into account when determining their local growth plans and their priorities for using pooled funding. This does not recognise that many authorities may have pledged funding for various purposes but this does not involve a formal contractual commitment. There is a need for any guidance to recognise softer commitments.
- 4.3 Exeter City Council's Executive has previously resolved that the majority of NHB be used for a Major Infrastructure Fund. It is intended to use this funding for a replacement swimming pool. Whilst the swimming pool is a political commitment it is not yet at a stage of a contractual commitment. The Council was expecting that about £2.5m of NHB in 2015/16 would contribute to the cost of this project and that NHB would, in total, contribute about £12.5m to the estimated cost. Top slicing of NHB will reduce the sum available in that and subsequent years 2016/17 and 2017/18. This will lead to a funding gap of about £1.4m that would have to be filled by the cost of additional borrowing.
- 4.4 NHB has been top sliced to provide capacity funding to deliver £120,000 of growth. This funding supports officers in the Exeter & Heart of Devon Growth Team. This capacity has been essential to deliver the strategic developments east of Exeter. There can be no guarantee that the LEP will wish to maintain this funding and it potentially undermines the Growth Board's own delivery plan.
- 4.5 Government could decide that it will expect the LEPs to take into account any contractual commitment at a date just before 2015/16, however, this might just encourage authorities to enter into contracts to maintain control of funding.

Government has also published initial guidance for LEPs on Growth Deals (Local Growth Funds).

- 4.6 The £400m from NHB forms part of the total Local Growth Fund allocation for 2015/16 of over £2billion. However, it forms part of only £570million that is not capital. It therefore seems likely to be mainly used on revenue projects that may be less likely to deliver infrastructure in the LEP's strategic economic plan.
- 4.7 LEPs, which comprise representatives of business and authorities in their areas, will have an increasing role in the areas they cover. However, the governance arrangements limit local direct accountability on their strategic economic plans and investment decisions. A sub-regional partnership may provide an opportunity to improve governance.

## **5.0 RECOMMENDATION**

- 5.1 That Executive support a submission to the NHB and the Local Growth Fund consultation:
- Opposing the principle of top slicing NHB since this blunts the incentive effect for authorities and local communities;
  - Strongly favouring the second mechanism in involving allocating County NHB before District NHB;
  - Identifying the need for LEPs to recognise 'softer' non-contractual commitments by councils to their communities on the use of NHB.
- 5.2 That the City Council engages with representatives of the LEP and other appropriate bodies on future governance arrangements proposing a sub-regional partnership and the development of its strategic economic plan for submission to Government. A sub-regional partnership may offer a solution to governance issues.

**KARIME HASSAN**  
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**Local Government (Access to Information) Act 1985 (as amended)**  
**Background papers used in compiling this report:**  
None