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To: Members of the New Home Bonus Panel  
(Councillors Ray Bloxham, Trevor Cope,  
Douglas Hull, Stephanie Jones, Andrew Moulding,  
Graham Troman)

Chief Executive  
Deputy Chief Executive – Richard Cohen  
Head of Finance

Other Members of the Council for Information

**New Homes Bonus Panel  
Wednesday 12 October 2011 at 4.00pm**

The above meeting will be held in Room One, Knowle, Sidmouth, to consider the matters detailed on the agenda below.

**A G E N D A**

Page/s

- 1 To appoint a Chairman of the Panel.
- 2 To decide on the role and activity of the Panel going forward.
- 3 To explore the context of demand on EDDC finances
- 4 To discuss the potential uses of New Homes Bonus, consider options on best use and make recommendations to the Cabinet.

**Papers includes to aid Member discussion:**

Report of Head of Finance presented to Cabinet meeting on 13 July 2011	2-7
Relevant minute from Cabinet meeting of 13 July 2011	8
Briefing Paper prepared by the Deputy Chief Executive, Richard Cohen.	9-12

**Copy report for information**

**Cabinet**

**13 July 2011**

**SD**



## **New Homes Bonus Scheme**

### **Summary**

Final details of the New Homes Bonus (NHB) have now been published and individual authority grant allocations determined. East Devon's allocation for 2011/12 is £310,872.

In setting the 2011/12 budget the Council did not rely on the receipts from the NHB because of the uncertainty surrounding the amount that would be received and the possible effect on the Council's future formula grant funding (the main source of Government funding to the Council for core service provision).

A decision is required on how to use this grant for 2011/12 and future years. The mechanics of the scheme do need to be borne in mind when deciding on the use of the grant as from year two onwards the Government's funding of the scheme relies on cutting formula grant to local authorities.

This report details the mechanics of the scheme, illustrates the level of income the Council might receive going forward and the possible reduction in formula grant we may see as result of the Government funding the scheme.

### **Recommendation**

- 1. At this stage members agree to allocate £62,000 (20%) of NHB towards a Community Fund with a member Panel to be formed to determine a framework for allocation.**
- 2. A further report is prepared for Cabinet bring together recommendations for the use of NHB monies when differing priorities have been considered and links with the Community Infrastructure Levy have been explored.**

#### **a) Reasons for Recommendation**

There are a number of possible calls on this funding including supporting the capital programme, regeneration and economic development projects, supporting affordable housing or bringing empty properties back into use and many others. It could be used for infrastructure delivery on new developments and the link to the Community infrastructure Levy needs to be explored.

Proposals need to be worked on for members' consideration, however, the principle of using the monies in line with community wishes at a local level are clear within the scheme so it is suggested at this stage to allocate 20% (£62,000) into a Community Fund with a member panel deciding on a framework for allocation.

**b) Alternative Options**

Members maybe decide on different approach to allocating the NHB monies.

**c) Risk Considerations**

The risks of the scheme are highlighted in the main report; this new money relies on top slicing the formula grant to local authorities, some authorities will overall be worse off under this arrangement. Illustrations indicate that EDDC will be an overall winner, however there are unknowns in this calculation in the actual additional properties that will be built and the how the Government will top slice formula grant.

**d) Policy and Budgetary Considerations**

Detailed in the report

**e) Date for Review of Decision**

A further report is being proposed to Cabinet on the use of NHB monies.

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**1 Introduction**

- 1.1 Final details of the New Homes Bonus (NHB) have now been published and individual authority grant allocations determined. East Devon's allocation for 2011/12 is £310,872. Under the scheme this payment will be received in 2011/12 and for a further 5 years, giving a total payment over the 6 years of £1,865,299. In 2012/13 a further sum will be paid, assuming an increase in house numbers in East Devon and this figure will also be paid for 6 years.
- 1.2 The NHB is designed to create a financial incentive to encourage local authorities to facilitate housing growth. The Governments intention is it will ensure the economic benefits of growth are more visible within the local area, by matching the council tax raised on increases in effective stock. This will redress the imbalance in the local government finance system, whereby a resource for growth areas did not keep pace with growth.
- 1.3 In setting the 2011/12 budget the Council did not rely on the receipts from the NHB because of the uncertainty surrounding the sum to be received and the effect on the Council's future formula grant funding (the main source of Government funding to the Council for service provision).
- 1.4 A decision is required on how to use this grant for 2011/12 and future years. The mechanics of the scheme do need to be borne in mind when deciding on the use of the grant as from year two onwards the Governments funding of the scheme relies on cutting formula grant.

## **2 Scheme Outline**

- 2.1 The NHB scheme provides the Council with a payment equal to the national average for the Council tax band on each additional property built. The scheme is intended to be a permanent feature of local government funding. For each additional occupied home, the council will receive six years of unringfenced grant (measured by the change in dwelling numbers on the Council tax valuation list).

The Government will use the Council Tax Base form to calculate increases in effective stock. This will be the number of Band D equivalent properties compared to the previous year, which will take account of additions, demolitions and empty homes brought back into use. Any increase will be multiplied by the national Band D average council tax for the previous financial year (for 2010/11 calculation this is £1,439.22) to arrive at the grant amount.

- 2.2 An enhanced grant will be paid for affordable housing delivery. The definition of affordable housing refers to both social rent and intermediate affordable housing types (e.g. shared equity, shared ownership and other low cost homes for sale or intermediate rent). Low cost homeownership products are included as with the new 'affordable rent' homes. For the purposes of the NHB, the definition can include homes provided by the private sector bodies and affordable homes delivered without grant funding. Traveller sites in public ownership also contribute to the supply of affordable homes.

A flat rate of £350 per annum per home will be paid. This equates to around 25% of the national average current Band D council tax. The first enhancement payment for affordable homes will be based on 2010/11 data and paid in Year 2.

- 2.3 The scheme states that in two tier areas, lower tier authorities such as East Devon are better placed to understand local needs and concerns. The Government states that for the incentive to be powerful, it must be where the planning decision sits. The allocation split between the County Council and East Devon reflects this with 80% to the lower tier and 20% to the upper tier. Devon County are to receive a grant payment in 2011/12 of £633,385 (£3.8m over 6 years), this being 20% of all lower tier authorities calculations across Devon.
- 2.4 The NHB is designed to sit alongside the existing planning system. The bonus is not intended to encourage housing development that would otherwise be inappropriate in planning terms. The NHB is intended to help deliver the vision and objectives of the community and may assist with issues such as service provision or infrastructure delivery. Other fiscal measures within the planning system such as Section 106 contributions and the Community Infrastructure Levy are independent of any decisions on use of NHB.

## **3. NHB Payments to the Council**

- 3.1 As stated the first year's payment to the Council is £310,872, under current scheme conditions this will now be paid for 6 years, giving a total payment over 6 years of £1,865,229. In 2012/13 a further sum will be paid, assuming an increase in house numbers in East Devon and this figure will also be paid for 6 years.

3.2 The table below shows a crude illustration based on planning information,

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Increase in properties	273	250	300	300	350	400
Cranbrook	0	0	0	100	300	420
Affordable	0	100	100	130	190	226
Grant Payment for year	£310,872	£315,844	£373,413	£496,950	£801,594	£1,007,408
Total Grant Payment	£310,872	£626,716	£1,000,129	£1,497,079	£2,298,673	£3,306,081
Total Received in 6 year period						£9,039,550

Notes:

- i. Average Council Tax level of £1,439 used each year, no increase has been made.
- ii. Assumed rate of empty homes brought back into use left at 2010/11 actual calculation.
- iii. 20% deduction has been made for Devon County Council Share.
- iv. Affordable based on 100 a year + 30% on Cranbrook total (included in growth figures)

3.3 The Government has allowed additional funding for NHB scheme of £950m (£200m for 2011/12 and £250m for 2012/13 to 2014/15). It is estimated however the cost of the scheme will reach £1.4bn in year 6, based on net additions over the last decade (161,818 annually – figures supplied by Home Building Federation (HBF)). The Shortfall in funding is to be met by top slicing the formula grant, which in year 6 will be the full £1.4bn. The HBF also calculate, based on household need, that net additions could be 232,000 properties a year, thereby giving a deficit in year 6 of £2bn.

3.4 Based on these annual additional property figures and making some assumption on how East Devon might be affected by the top slicing of the formula grant, we could see a reduction in grant of between £1.5m (additions annual properties of 161,818), to £2.1m (additional annual properties of 232,000). For illustration taking the higher national property growth rate and running this along side illustrative NHB grant payments to East Devon shows the following.

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Total NHB Grant	£310,872	£626,716	£1,000,129	£1,497,079	£2,298,673	£3,306,081
Loss In Formula Grant	-	£443,013	£797,063	£1,151,113	£1,770,252	£2,124,302
Net Income	£310,872	£183,703	£203,066	£345,966	£528,421	£1,181,779
Total Received in 6 year period						£2,753,807

**It must stressed that these are broad calculations but do illustrate that to make spending plans based on NHB income is extremely risky and the overall effects on the Council's finances need to be seriously considered. Any**

**plans on spending this grant it is recommended should be based on one off items of expenditure which do no commit the Council to ongoing costs. It is also suggested that expenditure should not be committed until the effect on the Council's formula grant is known each year.**

#### **4. Governments guidance how the grant can be spent**

- 4.1 The Government is not prescriptive over the use of any monies received. One of the principles of the bonus is flexibility on how to spend funding in line with community wishes and the bonus is an unringfenced grant.

The Government expects local authorities to gain an understanding of local priorities for investment and monies could be spent in relation specifically to a new development and importantly more widely to the local community. A specific community project may be identified as a local priority. Where there are Parish/Town plans (or neighbourhood plans in due course) these may be a useful tool in evidencing local priorities.

More widely, the Government states that Councils may wish to offer council tax discounts, support frontline services like bin collections or improve local facilities like playgrounds or parks, secure transport improvements and town centre regeneration.

- 4.2 Where councils have already determined the use of the bonus this varies significantly from using it to help balance the 2011/12 budget as a result of Government funding cuts, to supporting specific community projects based on community consultation.

#### **5. Suggested use of NHB monies**

- 5.1 There will be many calls from a number of areas for the use of NHB monies; however a principle strongly suggested above is that any spending of the monies is only agreed each year once the annual NHB grant has been announced alongside the effect on the formula grant. Timing of such announcements will coincide with the draft annual budget reports to Cabinet for the forth coming year.

- 5.2 Possible use of the monies could include; supporting the capital programme, regeneration and economic development projects, supporting affordable housing or bringing empty properties back into use and delivery of infrastructure on new developments. In addition the Head of Economy wants to explore the link between NHB and proposals to be brought to Cabinet on the Community infrastructure Levy. It is therefore proposed that a further report is presented to members when officers have been able to consider these issues.

- 5.3 However, it is clear that one of the main principles of the NHB scheme is to support local communities in line with community wishes. It is therefore suggested, as the first years allocation of NHB is known, that members make the decision to use 20% of the monies (£62,000) at this stage to spend on initiatives that deliver 'added value' to the local community, possibly where new development has taken place. It is suggested that a panel of members is formed to work with the Council's Engagement & Funding Officer to agree a framework of allocation and manage this process, this could be along the lines of the community

budgeting processes which was successfully undertaken by this Officer.

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## **Legal Implications**

With reference to recommendation 2 and para.2.4 of the report, progress of the Localism Bill should be monitored and any changes to Part 5 (Planning) considered carefully in any future report to Cabinet.

A useful comment appearing in Practical Law (online resource) states:

“It is proposed a new clause is added in Part 5, so that local finance considerations become a material consideration when deciding applications for planning permission in England. Local financial considerations cover:

- Grants or other financial assistance provided by government.
- Sums a relevant authority receives in payment of Community Infrastructure Levy.

The amendment has been criticised as deeply flawed. Critics of the amendment argue that its effect is that payments such as the New Homes Bonus... will make the grant of planning permission more likely and that linking planning decisions to payments will taint the "decisions" that are made. However, in response to these criticisms, the Department for Communities and Local Government stated that:

- The amendment does not change the legal position on what can be taken into account in the determination of planning applications.
- Unacceptable development should not be given consent just to unlock incentive payments.”

## **Financial Implications**

Details are contained in the report

## **Consultation on Reports to the Executive**

This report has been considered by the Council Strategic Management Team

## **Background Papers**

- Details of NHB scheme on DCLG website

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Simon Davey  
Head of Finance

Cabinet  
13 July 2011

**\*32 New Homes Bonus Scheme**

Members considered the report of the Head of Finance setting out the final details of the New Homes Bonus Scheme which identified East Devon's allocation for 2011/12 and the subsequent 5 years as £310,872 (giving a total payment over the 6 years of £1,865,299). The Government's intention was to create a financial incentive to encourage local authorities to facilitate housing growth.

The grant allocation had not been taken into account during the budget setting process due to uncertainty surrounding the amount and therefore Members were now asked to consider how to use the grant in 2011/12 and future years. Any decision needed to take into account the Government's intention to fund the scheme from year two onwards by cutting formula grant to local authorities.

It was noted that the Government was not prescriptive over the use of any monies received but expected local authorities to understand local priorities for investment for the benefit of the wider community.

It was suggested that a politically balanced panel of members be set up to work with EDDC's Engagement and Funding Officer to consider various options to progress the scheme and make recommendations to the Cabinet. Members made reference to the former Rural Aid Panel and felt that the new Panel might work in a similar way.

**RESOLVED** that, a politically balanced Member Panel of six be set up to assess the range of options for use of the New Homes Bonus Scheme and report back to the Cabinet with recommendations.

**REASON** The Panel to explore a range of options with the final decision on how to proceed being made at a future meeting of the Cabinet.



# **New Homes Bonus (NHB) Panel Meeting – (12 October 2011)**

## **Briefing Paper to Aid Member Discussion**

### **Summary**

Members considered a report at July 13 Cabinet regarding possible arrangements for use of New Homes Bonus. Members decided to establish a panel along the lines of the previous Rural Aid/Community Fund Panels. In the first instance this panel would consider options on how best to use NHB.

### **Background**

The NHB scheme was introduced in part to redress an imbalance in the local government finance system. In calculation formula grant payable to a council an account is taken of how much council tax can be raised locally, an increase in housing numbers results in an increase in the assumed level of council tax that could be collected locally and therefore a deduction from the amount allocated to the area by central government.

The NHB scheme provides the Council with a payment equal to the national average for the Council tax band on each additional property built. The scheme is intended to be a permanent feature of local government funding. For each additional occupied home, the council will receive six years of unring fenced grant (measured by the change in dwelling numbers on the Council tax valuation list).

An enhanced grant will be paid for affordable housing delivery. The definition of affordable housing refers to both social rent and intermediate affordable housing types (e.g. shared equity, shared ownership and other low cost homes for sale or intermediate rent).

A flat rate of £350 per annum per home will be paid. This equates to around 25% of the national average current Band D council tax. The first enhancement payment for affordable homes will be based on 2010/11 data and paid in Year 2.

The scheme states that in two tier areas, lower tier authorities such as East Devon are better placed to understand local needs and concerns. The allocation split between the County Council and East Devon reflects this with 80% to the lower tier and 20% to the upper tier. Devon County are to receive a grant payment in 2011/12 of £633,385 (£3.8m over 6 years), this being 20% of all lower tier authorities calculations across Devon.

### **Key Points**

- East Devon's allocation of NHB for 2011/12 is £310,872
- 2012/13 is projected to be £315,844
- The NHB is intended to help deliver the vision and objectives of the community and may assist with issues such as service provision or infrastructure delivery
- Each new home that is built has an implication for service delivery costs (refuse collections, regulatory services etc). At present additional income from extra Council Tax is offset by a reduction in Revenue Support Grant. This causes a strain on service budgets. NHB could help to offset those additional costs at least for a short period of time.
- Section 106 contributions, Community Infrastructure Levy etc are independent of any decisions on use of NHB
- General consensus is that for this year and next we can expect NHB to be in addition to formula grant but from 2013/14 onwards government is likely to claw back through

an equivalent reduction in grant ie long term spending projects and ongoing revenue commitment could be problematic

- The NHB is designed to create a financial incentive to encourage local authorities to facilitate housing growth but the potential uses of NHB are wide ranging. The Government is not prescriptive over the use of any monies received. One of the principles of the bonus is flexibility on how to spend funding in line with community wishes and the bonus is an un-ring fenced grant.
- A specific community project may be identified as a local priority. Where there are Parish/Town plans (or neighbourhood plans in due course) these may be a useful tool in evidencing local priorities
- Councils may wish to offer council tax discounts, support frontline services like bin collections or improve local facilities like playgrounds or parks, secure transport improvements and town centre regeneration.
- A Government intention is it to ensure the economic benefits of growth are more visible within the local area

### Options for use of NHB

The criteria for use of NHB are very open and therefore options are varied and wide ranging. Further guidance is unlikely to be forthcoming from Government therefore it is in our gift to decide how best to use NHB. Possible use of the monies could be to include; supporting the capital programme which provides schemes benefiting local communities and helps run core service delivery, members will be fully aware of the significantly capital funding problems the Council is facing and this would help to address this difficulty, other areas could include, regeneration and economic development projects, local plan preparation, supporting affordable housing or bringing empty properties back into use and delivery of infrastructure on new developments. We might also explore possible synergies between NHB and other funding opportunities of a similar scale.

In so far as there is little direction available on use of NHB, our options are fairly open. To identify best use members may wish to consider uses that will help to deliver corporate priorities, savings and income generation, revolving arrangements. emerging government priorities, community expectations among other drivers. Some options for discussion are listed below:

**Keep it Short** - After two years we expect that the government will then start to top slice formula grant.

Avoid using NHB for projects with multi-year development costs or ongoing revenue requirements. Spending all the 2011/12 allocation in year will become more difficult as we head into the last half of the financial year and NHB funds can be carried across years. However, we are anticipating this and the following year will have NHB in addition to current grant levels.

Focus on one off such as capital equipment for communities, repair/refurb or interim/short term projects such as a temporary uses of vacant shops

**Existing Demands** – The capital programme is challenged and numerous opportunities already exist to use NHB for one off/short term spend on specific items not currently budgeted for. Against this background members will want to consider what proportion of NHB they are thinking of directing toward community projects. Since the additionality of NHB is likely to cease quite quickly it might be counter-productive to raise expectation or

reliance on the fund by allocating too high a proportion to community schemes.

**Homes and Community Related** – The fund is derived from payment directly linked to new homes development with a particular incentive for affordable homes building. Use of NHB could be focused significantly on managing the impact of new homes and communities.

Funds could be used for the development of Community Land Trusts or new models of building new homes retained in local community ownership. The fund would not stretch to land purchase but could support communities that wanted to set up CLTs and perhaps work with interested land owners. . The NHB could be used to offset the reduction in capital grants from the Homes and Communities Agency and maintain our affordable housing development programme. Getting to places that do not always benefit eg isolated rural communities

**Council Housing Focus** – Invest NHB to build more social rented units to maintain a Council Own Build programme and supplement Homes and Communities Agency funding. The development programme could include mechanisms to support working age council tenants into training and employment.

**Being Seen** – Use of NHB could be focused primarily on making visible change or on preliminary work that will lead to visible change eg one off capital investment eg:

- Public realm and shop front improvements
- town centre development briefs that lead to physical improvements
- Promoting access to green space, improving the visitor experience
- Supporting local business – advice, local purchasing
- Responding to people’s priorities – clean streets, working with young people etc

**Local Decisions** - A proportion of NHB could be made available for local determination in the form of local funding allocations to parishes. An sum could be given to some or all parish and town councils to use on specific projects as they see fit or within set criteria.

Localism projects – operate a community initiatives fund where proposals are put forward from community groups for projects that are scored against criteria based around community benefit and longevity .

**Community Engagement & Development** – Use NHB to fund annual event replacing Local Strategic Partnership. A useful approach could be to fund preparation of local plans.

NHB could be used to extend the community development work currently limited to Housing Service initiatives. These could include activities for young people; job clubs; training and employment skills; IT training & get digital; art; creche; parenting skills. Existing community centre facilities can provide the base for these activities.

**Invest to Save** – Use NHB alongside Asset Management Plans. Improve District business parks, leisure facilities etc in ways that will increase usage and allow for increased revenues to be secured.

Contribute to development costs of a revolving infrastructure fund for the Growth Point to

support infrastructure investment that will enable further housing development.

Energy saving and energy generation measures.

**Future Demands** – As well as opening NHB to local take up the council will need to have an eye to any unfunded future spend requirement that NHB could help meet. This could be a pragmatic approach to a proportion of NHB not devoted to a community Fund Panel or local allocation approach eg:

- Resources to develop Community Land Trusts in cooperation with local communities.– as referred above
- Cranbrook – As a deliverer of significant NHB into the future, the new town may also present some unfunded demands (ie not met within the S106). Cranbrook may start to offer such challenges of community and service development from 2012/13 onwards
- Development and Delivery Briefs for specific local opportunities eg Sidmouth Ham, Webster's Garage in Axminster
- Specific one-offs of which we are aware but have no identified budget eg the capital cost of a cleaning machine for Exmouth Strand

Richard Cohen

Deputy Chief Executive

25 July 2011