

LGA Consultation Response: New Homes Bonus and the Local Growth Fund

Purpose of report

To note the LGA response to the Department for Communities and Local Government's (DCLG) technical consultation on the New Homes Bonus and the Local Growth Fund and further discussions with DCLG.

Summary

The government intends to pool £400 million from the New Homes Bonus within Local Enterprise Partnerships (LEP) areas in 2015/16 as part of the Local Growth Fund. DCLG has published a technical consultation paper setting out proposals for the pooling mechanism.

The consultation closed on 19 September. The LGA's response is attached at **Appendix A** and was seen Finance Panel Lead Members. It rejects both the detailed proposals in the consultation, and the overall principle of cutting council funding to create less devolved funding arrangements. It emphasises that the LGA is very willing to work with government to develop alternative proposals for funding the Local Growth Fund in a way which minimises the impact on councils' budgets and avoids damaging initiatives to support growth.

Recommendation

That Members note the response to the consultation set out in this paper.

Action

Officers to continue discussions with DCLG following the close of the consultation.

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Background

1. The New Homes Bonus was introduced in 2011 to provide an incentive and reward for local authorities and communities to accept new houses in their area. A bonus equal to the national average for the council tax band on each additional property they build/bring back into use is paid for six years as an un ring-fenced grant. The payment of bonus between tiers in two tier areas is split; 80 per cent to Districts and 20 per cent to Counties.
2. The bonus is funded from a RSG top slice, supplemented by £250 million per year of central funding until 2015. After that, the Bonus will be fully funded from an RSG top slice. According to the National Audit Office forecast, the value of the Bonus in 2015/16 will be £1.14 billion.

Summary of proposals

3. The Government has announced that £400 million from the New Homes Bonus will be pooled within LEP areas in 2015/16 as part of the Local Growth Fund. This is equivalent to 35 per cent of the total value of the Bonus to local authorities in 2015/16. The consultation closed on 19 September 2013.
4. Two options for arriving at £400 million in total are proposed:
 - 4.1. A flat percentage with all councils contributing an equal proportion of their New Homes Bonus entitlement to the LEP pool, estimated at 35% in 2015/16.
 - 4.2. The second mechanism would operate in the same way in areas with a single tier of local government, but in two tier areas the allocation is linked to the role of the bonus as a part of overall spending power. In this arrangement the upper tier authority contributes 100 per cent of their New Homes Bonus. The lower tier contributes the remainder, estimated at 18.9 per cent of their New Homes Bonus allocation.
5. The consultation document proposes that the Government will seek to address the issue of future commitments entered into by councils on the basis of predicted New Homes Bonus which under these proposals they would lose. It does not explain how.

Summary of proposed LGA response

6. In summary, the LGA response explains that the proposals for pooling are a further £400 million spending cut to local authorities. This is because the funding concerned is currently a non-ring-fenced, incentive based grant for which many authorities have already made plans. Councils have already committed income expected from the New Homes Bonus to long term investment projects to support economic growth. Councils have also devolved significant amounts of the Bonus to their communities. The transfer of £400m from the New Homes Bonus is equivalent to a 3.4 per cent cut to the revenue

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support grant. Council tax would have to rise, on average, by just over 2 per cent to recoup this loss. The government has promised that there will be no more than a 2.3% real terms cut in council funding in 2015-16; this would become a 3.1% cut as a result of this.

7. Pooling funding at LEP level also weakens the effectiveness of New Homes Bonus as an incentive for housing development, and may weaken existing plans for investment and growth. LEPs do not take planning decisions.
8. Reusing existing local funding to create the Local Growth Fund also undermines its effectiveness, because the Growth Fund will replace and not supplement initiatives already taking place. The draft consultation response sets out a number of examples where authorities are using or planning to use the bonus to achieve Government objectives. Removing a proportion of that funding will result in funding gaps meaning many of those projects cannot go ahead.
9. The proposed mechanisms for pooling have different impacts in two tier areas, but both remove £400 million in direct funding and as such it is suggested that the LGA should not support either of them.
10. Councils and LEPs already work together on a voluntary basis, as some of the examples in the draft response indicate. The proposed LGA position is that pooling can and should therefore be a decision made locally. Councils and LEPs are already working together to deliver local priorities on growth and housing. Government should allow councils working across boundaries and with their LEPs to lead on housing growth and give them the financial security to make long term investment plans.
11. The full proposed response is set out at **Appendix A**. It emphasises that the LGA is very willing to work with government to develop alternative proposals for funding the Local Growth Fund in a way which minimises the impact on councils' budgets and avoids damaging initiatives to support growth. If the final response differs from this it will be circulated at the meeting. Officers will also update on the state of any discussions with DCLG on alternatives.

Financial Implications

12. None.