Appendix A: DRAFT LGA Response to Technical Consultation on the New Homes Bonus and the Local Growth Fund

Summary

The LGA strongly supports the principle of a Local Growth Fund as a means of devolving growth-related funding held by central government departments to local councillors and business people so that decisions can reflect the needs and priorities at the level at which local economies function. The Single Local Growth Fund is a key step towards revitalising local economies by better targeting investment, unlocking growth potential and improving productivity, while revitalising local democracy. To achieve this, the Government needs to devolve centrally held funds to local areas.

It is very disappointing therefore that the vast majority of the fund is simply a reallocation of existing council or already-devolved funding, often upwards. That is the opposite of devolution.

Councils are strongly opposed to proposals to pool a proportion of the New Homes Bonus which seriously undermines efforts to support growth and will place a further strain on council finances. The LGA does not agree with either of the options proposed for pooling the funding in two-tier areas and will not indicate a preference for either.

Pooling a proportion of New Homes Bonus:

- breaks the promise made when the policy was introduced that the bonus would be available to fund local services for six years
- is a further cut to council budgets and redistributes funding already committed to local priorities;
- deprives local communities of investment where monies have been devolved to communities;
- will threaten the delivery of investment plans and create uncertainty for future investment planning;
- will significantly weaken the incentive for housing development; and
- will undermine joint working and create tensions in local partnerships.

These impacts are illustrated by a number of case studies (attached as an annex to this response) which demonstrate how councils are using the New Homes Bonus to support growth, housing and communities – schemes that would be threatened by the pooling of a proportion of the funding.

We understand that in the current financial context funding the Local Growth Fund will impact on other budgets. Our view is that the funding should come from devolving centrally held funds to target investment more effectively. It is crucial that the new fund does not detract from existing initiatives that are currently supporting growth. Removing funding form the New Homes Bonus would do exactly that and would significantly undermine efforts to meet the need for new housing.

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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.

Principles of pooling

The proposals are in effect a further £400 million cut to council funding.

The New Homes Bonus is currently funded in the main from a top slice from RSG grant to councils, in 2015/16 it will be funded in its entirety from top slice. It is not therefore additional to the overall settlement for local government. This money is being used as an incentive to encourage councils and communities to accept development, its pooling will likely have the opposite effect.

The transfer of £400m from the New Homes Bonus is equivalent to a 3.4% cut to the revenue support grant. Council tax would have to rise, on average, by just over 2% to recoup this loss (but the potential for this is constrained by the referendum threshold of 2%).

Absorbing this cut is likely to be very difficult for councils when they are already dealing with significant reductions in funding. The LGA's Future Funding Outlook for councils reveals that the financial black hole facing local government is widening by £2.2 billion a year and will reach £15.6 billion by 2015/16[1] before the £400m transfer is taken into account.

The proposals represent a fundamental change to a policy introduced just three years ago which clearly committed to giving councils maximum freedom over how funding from the bonus could be used. Councils have therefore been factoring it into spending plans and investment and business planning. Chopping and changing government policy and funding commitments creates uncertainty and makes it very difficult for councils to undertake prudent financial planning.

Removing a significant amount of the New Homes Bonus from councils weakens their ability to invest in their communities and growth supporting infrastructure, and undermines the principle of an incentive for new housing.

The Government introduced the New Homes Bonus to incentivise councils and communities to support new housing development by rewarding them for each new home in their area. The bonus is un-ring-fenced with the intention that councils and communities have full flexibility on how it should be spent to reflect local priorities. In practice, councils use the New Homes Bonus in different ways and many invest in further new homes, infrastructure to support local economic growth and ensure that communities directly benefit from and see the value in new development. A number of councils devolve significant amounts of the new homes bonus directly to their communities. Removing a proportion of the bonus will mean that many of these schemes cannot go ahead.

[1] http://www.local.gov.uk/web/guest/finance/-/journal_content/56/10171/4057616/ARTICLE-TEMPLATE
Figures have been amended to reflect the Government consultation on the 2014/15 and 2015/16 settlements.

LGA research has highlighted that resistance from communities is the main barrier to housing development[2], and that investing in services and infrastructure is the most effective way to address this. The reallocation of a proportion of New Homes Bonus represents a change of policy which retrospectively alters a funding commitment made to councils and communities. Diverting £400 million from the New Homes Bonus means councils will no longer be able to use the funding to fund local priorities which matter most to their local communities, which include village halls and facilities that are so important to support additional homes. This will undermine communities' trust in government and community support so important to new housing development. Government's New Homes Bonus policy will only be successful if they follow through on the promise that the benefits will accrue to local areas that accept new development.

Pooling at LEP level will threaten existing commitments and long term investment in growth.

Councils have already committed income expected from the New Homes Bonus to long term investment projects to support economic growth. Removing a proportion of that funding will result in funding gaps meaning many of those projects cannot go ahead. Requiring councils to bid to get the funding back will waste time and money without any guarantee of success. This will cause uncertainty for other investors and partners making it more difficult to get projects off the ground.

Pooling the funding will also undermine other government initiatives designed to support growth. For example, the New Homes Bonus forms an important strand of the recently agreed Preston and Lancashire City Deal. Other councils are using the Bonus to support the government's rollout of superfast broadband.

Case studies illustrating how councils are using the New Homes Bonus to support new housing development, invest in growth and support community facilities and infrastructure are attached at annex a. These schemes would be threatened by the pooling of a proportion of the funding.

Pooling mechanisms

There is no equitable means for enforced pooling of the funding.
A national system of pooling is a blunt instrument that cannot take account of demand, the views of local communities and council finances. Government has proposed two options for pooling. Both options create funding gaps and inequities for councils and the LGA does not agree with either of the proposed mechanisms.

Decisions on pooling New Homes Bonus should be for councils working with their LEPs to decide.

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

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[2] http://www.local.gov.uk/c/document_library/get_file?uuid=11cf5bc8-88ed-46a5-82e0-7b6fb3f4ed02&groupId=10171

to lead on housing growth and give them the financial security to make long term investment plans. For example:

- The West of England LEP and the four local authorities in the area (Bath and North East Somerset, Bristol, North Somerset and South Gloucestershire) are considering a City Region Deal. The West of England authorities would keep the income generated from business rates growth across the five enterprise areas and the enterprise zone over the next 25 years, under the terms of the deal. This would be pooled into a West of England Economic Development Fund, and the West of England LEP would then decide where to invest the money to create new jobs and attract private sector investment.

- Stoke-on-Trent and Staffordshire LEP's City Deal is underpinned by a series of District Deals. These are bilateral agreements between the county and individual districts. Each deal has a mutual commitment to share the proceeds of growth through the City Deal and other economic plans by pooling retained business rates.

Consideration of New Homes Bonus already committed

The consultation document proposes that the Government will seek to address the issue of commitments entered into on the basis of New Homes Bonus but is not specific about how this will be done.

As the case studies at annex A demonstrate, councils are planning to use the New Homes bonus in a range of ways. As the bonus is un-ring-fenced, councils have not been required to set out how they intend to use the New Homes Bonus. It is not clear how Government is intending to define spend that has been committed or by when and it is difficult to see how this will operate in practice. If the government goes ahead with the proposals it must allow all councils the opportunity to commit funds to avoid unfairly impacting on authorities who were acting entirely consistently with current arrangements.

Conclusions

The LGA believes that a strong, adequately funded Local Growth Fund is a vital means of generating economic growth by devolving growth-related funding held by central government departments to local councillors and business people so that local solutions can supplement and complement top-down solutions and decisions can reflect the needs and priorities at the level at which local economies function.

This will not be achieved solely by reallocating resources that local areas already have at their disposal; real devolution is required.

It is very disappointing therefore that the vast majority of the fund is simply a reallocation of existing council or already-devolved funding.

Councils are strongly opposed to pooling a proportion of the New Homes Bonus which undermine efforts to support growth and will place a further strain on council finances.

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Case studies

The following examples demonstrate how councils are using the New Homes Bonus to support housing and communities – schemes that would be threatened by the pooling of a proportion of the funding.

Investing in new housing

- South Norfolk Council is using money from the New Homes Bonus to encourage Housing Associations to build affordable housing in the district. The first development funded under the scheme is for 8 new homes in Diss built on the site of derelict garages. The initial investment by the Council is expected to attract a further £1 million from other sources.

- Islington Council is using £700,000 of its New Homes Bonus to unlock a scheme to build for social rent by Islington and Shoreditch Housing Association. The scheme will include family-sized homes to help alleviate the borough's chronic problems with overcrowding.

- Leicestershire County Council committed all New Homes Bonus received in 2011/12 to support the building of rural affordable homes, available to rent or for shared ownership schemes in villages. This is bringing forward stalled housing developments by plugging funding gaps.

- West Lindsey District Council has allocated New Homes Bonus to strategic housing projects which at the moment are focussed on bringing empty properties back into use. The outcomes are the regeneration of a particular area, to address the high number of empty properties and improve the quality of housing stock.

- Leeds Council is using £1.5 million from the New Homes Bonus to fund social and affordable housing as part a of a three year investment programme to build 325 homes, using a £12.9 million investment programme which includes £1.5 million from the New Homes Bonus payment.

Providing community infrastructure

- South Lakeland Council is setting aside 40% of the proceeds of its New Homes Bonus to provide grants to housing associations, private housing developers, community land trusts or similar organisations and town and parish councils for locally important projects (infrastructure projects such as play areas and community facilities). 60% of New Homes Bonus goes to affordable housing.

- Southwark Council is investing its New Homes Bonus across the borough to create places that attract further housing growth including environmental and regeneration projects.

- Wychavon District Council has allocated 40% of revenue from New Homes Bonus for reinvestment by communities where development has taken place.. Parish and town councils have chosen to use the investment in a range of ways, to support community facilities and local initiatives.

- Chichester District Council is sharing £450,000 of its New Homes Bonus with communities where new housing development is taking place. The fund was launched this Summer and the Council is currently inviting proposals from local people for innovative community based projects.

- Cheshire West and Chester devolve 20% of New Homes Bonus directly to communities for investment into community priorities set out in their plans.

- South Oxfordshire District Council uses New Homes Bonus to support community infrastructure schemes in areas experiencing significant housing growth. Residents in the village of Cholsey were the first to apply for a grant and a new village hall is being built through the scheme.

- Eden Council allocates the first £100,000 of New Homes Bonus to their Community Fund to support community groups in taking forward grass roots projects. To date every £1 spent has levered in another £6. NHB is also used to support affordable housing.

- Devon County Council plan to use the bonus to support infrastructure projects including road improvements to develop and open up employment land and to unlock stalled sites.

- Buckinghamshire County Council use the bonus to support their work on broadband, economic development and new infrastructure feasibility and delivery.

- Eastleigh Borough Council use the affordable housing element of their New Homes Bonus payment to fund more affordable housing. The remainder is used to support capital projects to benefit the community, which have included a new medical and community centre including a new library and parish office and a professional quality theatre and enhanced sports facilities.

- Richmondshire District Council has set up a Community Opportunities Fund to allocate New Homes Bonus funding to housing growth, investment and community projects in the District. New Homes Bonus payments received since 2011 have funded a range of projects including repairs and upgrades to community facilities and investment in services and activities to support young people. It has also been used to cover the cost of feasibility studies for new development.

Supporting local businesses

- Newark & Sherwood District Council has established a £2 million Think Business Investment in Growth fund, financed by the New Homes Bonus. It provides loan finance to local businesses with growth potential.

- East Lindsey District Council has to date allocated all its New Homes Bonus to its Community and Culture Reserve. This includes £1.5m on Rural Development Grants to small businesses and social enterprises.

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Unlocking growth

- In Preston and Lancashire, the New Homes Bonus forms an important strand of the City Deal. The City Deal brings the opportunity to create 20,000 new jobs in the area and generate new economic activity. The scheme includes investment in critical infrastructure projects including four major highway schemes. The City Deal will establish a £450 million Infrastructure Delivery Programme and Investment Fund including contributions from developers and the Homes and Communities Agency. Over a ten year period Lancashire County Council expect to contribute 12.95m of New Homes Bonus, and Preston and South Ribble expect to contribute around 28m each.

- Milton Keynes Council is using New Homes Bonus to support the Local Infrastructure Plan. It has been used to get infrastructure projects of the ground, for example securing funding for a new secondary school. The Council has also used New Homes Bonus to support their contribution the BDUK superfast broadband procurement.

- York City Council has a strong economy with the potential for more growth, but this is constrained by the lack of space and suitable facilities. The Council has combined New Homes Bonus with prudential borrowing to create an Economic Investment Fund of £28.5 million. This has been used to kick start development, including a new grow-on space for digital media, one of the fastest growing sectors in the City. Other uses for the infrastructure fund including attracting investment to key sites in the area, for example by putting business cases together.

- Wakefield Council is using New Homes Bonus to fund the development work for a new urban extension, a new community expected to deliver 2,500 new homes and 1,658 jobs. The bonus has been used for development and planning work, including design and planning studies.

- Sheffield City Council have established a local growth fund to meet its objectives for the use of the new homes bonus. This includes investment to improve site viability, neighbourhood regeneration, restarting the city centre housing market and managing buy to let properties and mortgage assistance schemes to help first time buyers.

- Stevenage Council plan to use their bonus to support the implementation and delivery of a range of projects including town centre improvement projects, a network of enterprise clubs for young people.