Resources Board

Agenda

Tuesday, 2 March 2021
2.00 pm

Online via MS Teams

www.local.gov.uk

Resources Board
2 March 2021

There will be a meeting of the Resources Board at **2.00 pm on Tuesday, 2 March 2021** online via MS Teams

Political Group meetings:
The group meetings will take place in advance of the meeting. Please contact your political group as outlined below for further details.

Apologies:
Please notify your political group office (see contact telephone numbers below) if you are unable to attend this meeting.

Conservative:	Group Office:	020 7664 3223	email:	lgaconservatives@local.gov.uk
Labour:	Group Office:	020 7664 3263	email:	labour.grouplga@local.gov.uk
Independent:	Group Office:	020 7664 3224	email:	independent.grouplga@local.gov.uk
Liberal Democrat:	Group Office:	020 7664 3235	email:	libdem@local.gov.uk

LGA Contact:
Richard Kember
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Carers' Allowance
As part of the LGA Members' Allowances Scheme a Carer's Allowance of £9.00 per hour or £10.55 if receiving London living wage is available to cover the cost of dependants (i.e. children, elderly people or people with disabilities) incurred as a result of attending this meeting.

Resources Board – Membership 2020/21

Councillor	Authority
Conservative (7)	
Cllr Tim Oliver (Vice Chairman)	Surrey County Council
Cllr Philip Atkins OBE	Staffordshire County Council
Cllr David Finch	Essex County Council
Cllr Daniel Humphreys	Worthing Borough Council
Cllr Peter Jackson	Northumberland Council
Cllr Roger Phillips	Herefordshire Council
Cllr Richard Wenham	Central Bedfordshire Council
Substitutes	
Cllr Graham Gibbens	Kent County Council
Cllr Andrew Leadbetter	Devon County Council
Cllr David Leaf	Bexley Council
Labour (7)	
Cllr Richard Watts (Chair)	Islington Council
Cllr Sharon Taylor OBE	Stevenage Borough Council
Cllr Bev Craig	Manchester City Council
Cllr Terry Paul	Newham London Borough Council
Cllr Erica Lewis	Lancaster City Council
Cllr Amanda Serjeant	Chesterfield Borough Council
Cllr Peter Marland	Milton Keynes Council
Substitutes	
Cllr Abdul Jabbar MBE	Oldham Metropolitan Borough Council
Cllr Harpreet Uppal	Kirklees Metropolitan Council
Cllr Adam Swersky	Harrow Council
Liberal Democrat (2)	
Cllr Keith House (Deputy Chair)	Eastleigh Borough Council
Cllr Adam Paynter	Cornwall Council
Substitutes	
Cllr Mike Bell	North Somerset Council
Independent (2)	
Cllr Jason Zadrozny (Deputy Chair)	Ashfield District Council
Cllr Phelim MacCafferty	Brighton & Hove City Council
Substitutes	
Cllr James Hakewill	Northamptonshire County Council
Cllr Loic Rich	Cornwall Council

Local Government Association

Agenda

Resources Board

Tuesday 2 March 2021

2.00 pm

Online via MS Teams

Date of Next Meeting: Thursday, 3 June 2021, 2.30 pm, Venue TBC

LGA Resources Board
2 March 2021

Local Government Finance update

Purpose of report

For information.

Summary

This report provides a summary of the work by the LGA on funding and finance issues since the previous meeting of the Board on 14 January. This includes work on the 2021/22 final Local Government Finance Settlement, the 2021 Chancellor's Budget, and COVID-19 finance issues.

Recommendations

That Members of the Resources Board note this update.

Action

Officers will proceed with the delivery of the LGA's work on local government finance matters.

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LGA Resources Board
2 March 2021

Local Government Finance Update

Introduction

1. This report provides a summary of the work by the LGA on funding and finance issues since the last Board meeting on 14 January 2020 including work in response to the COVID-19 pandemic, the final Local Government Finance Settlement, and the Chancellor's Budget.

Final 2021/22 Local Government Finance Settlement

2. On 4 February the Final Local Government Finance Settlement for 2021/22 was published. There were no major changes compared to the provisional settlement published in December 2020, with the overall increase in Core Spending Power increasing from 4.5 to 4.6 per cent for 2021/22, due to updated data for the New Homes Bonus and a revised council tax referendum limit for the Greater London Authority. More than 85 per cent of the potential core spending power increase next year is dependent on councils increasing council tax by the maximum permitted without a referendum.

3. Allocations of the Public Health Grant for 2021/22 have not yet been announced.

4. The final settlement was debated in Parliament on 10 February. The LGA's evidence to the Housing, Communities and Local Government Select Committee and funding gap analysis were referred to by several MPs, as well as historic cuts to funding over the last decade, and the need for a long-term solution to social care funding. We provided a briefing for parliamentarians to assist them in this debate.

5. Alongside the final settlement debate on 10 February, the Government launched a consultation on the future of the New Homes Bonus. We will respond to the consultation by the 7 April deadline and are seeking views from the Resources Board, to be discussed in Agenda Item 5.

Business Rates Review

6. On 19 February the Treasury announced that an interim report of their Review of Business Rates, along with a summary of consultation responses, would be published on 23 March with the final report being published in Autumn 2021.

Capitalisation

7. On the day of the settlement debate, the Government announced an extension of the flexibility to use capital receipts to fund transformation projects. This flexibility was first introduced in 2015 and then extended to 2022. The latest announcement is to extend it for a further three years from 2022; further details will be provided by the Government in due course.

8. The Government also published details of capitalisation directions granted to four local authorities that have requested exceptional financial support during the COVID-19

pandemic; these were for Bexley, Eastbourne, Peterborough and Luton. We understand other councils are in continuing discussion with MHCLG about similar arrangements.

COVID-19 funding

Financial impact

9. The MHCLG monthly financial monitoring returns continue to be a key instrument in representing the financial impact of COVID-19 on local government. According to the January returns, the total in-year financial pressure projected by councils in 2020/21 due to COVID-19 was estimated to be £10.2 billion (consisting of £7.3 billion of cost pressures and £2.9 billion of non-tax income losses), with a further £2.6 billion of business rates and council tax income losses – these tax losses will impact council budgets in 2021/22.

10. The Public Accounts Committee is calling for evidence on the evolving financial pressures on local government and support provided by central government in the context of the COVID-19 pandemic. The LGA will respond to this inquiry by the 11 March deadline. Linked to the call for evidence, the National Audit Office (NAO) is due to publish a report on local government finance and the pandemic.

2021/22 COVID-19 funding

11. Alongside the settlement, the Government published a policy paper on COVID-19 funding in 2021/22 following the consultation in December. The Government confirmed allocations of the £670 million of local council tax support will be the indicative amounts set out in the consultation in December, and the extension of the sales, fees, and charges compensation scheme will use 2020/21 budgeted income as a baseline.

12. The policy paper also confirmed how losses in council tax will be measured in the local tax income guarantee scheme for 2020/21, with further details on business rates losses to be made available at a later date. The COVID-19 financial management survey will also continue to be collected.

13. COVID-19 funding in 2021/22 also includes the £1.55 billion for cost pressures; allocations were published in December.

Business Grants

14. BEIS will publish details of grants distributed by billing authorities and parliamentary constituency. At the time of writing this report, the date of publication had not been confirmed. On 22 February BEIS wrote to billing authorities to confirm that the Local Restrictions Support Grant to support businesses that were required to close due to the national lockdown announced at the start of 2021 was being extended to 31 March. The top-up Closed Business Lockdown Payment, also announced at the start of January, will not be extended

Institute for Fiscal Studies Phase 3 report

15. In February the independent economic research body, the Institute for Fiscal Studies (IFS) published a new report "Employment, income and council tax during the COVID-19 crisis: A geographical analysis and implications for councils".

16. This report has been part funded by the LGA and represents the third phase of the work we commissioned last year on the impact of COVID-19 on council finances. The IFS found that the pandemic has hit employment and incomes across the UK, potentially reflecting changes in commuting, shopping and tourism. That in turn has affected some households' ability to pay major bills such as council tax and also affected the number of benefit claims made. It found that as a result, councils expect to collect £1.3 billion less council tax in 2020/21. The report has been produced independently by the IFS.

Chancellor's Budget 2021

17. The Budget will be delivered by the Chancellor on 3 March. LGA officers will provide an on the day briefing which will be sent to members.

18. The LGA's Budget submission focussed on key topics, including COVID-19, Brexit, economic recovery, jobs, devolution, Spending Review 2021, local government finance reform, adult social care reform, children's social care and education.

Financial sustainability

19. The Housing, Communities and Local Government Select Committee is carrying out an inquiry into Local Authority Financial Sustainability and the Section 114 Regime. Resources Board Lead Members approved a submission to the inquiry and the Chair of the Resources Board gave oral evidence to the committee on 8 February alongside the Chief Executive of CIPFA.

Green Book

20. As part of its review of the 2020 Spending Review, the Treasury Select Committee has issued a call for evidence on changes to HM Treasury's Green Book. Resources Board Lead members approved a submission of evidence to this inquiry.

21. While noting that the Green Book process remains centrally driven overall, we welcomed the intention to take a more rounded approach to reflecting on local policies, strategies, and plans. We highlighted that the Green Book should better account for the Government's decarbonisation and net zero ambitions, and the environmental impacts of climate change. The assessment of environment benefits under the Green Book is still work in progress and will be the subject of a further review by HM Treasury this year.

Audit issues

22. The Public Sector Audit Appointment (PSAA) closed their consultation on audit scale fees for 2021/22 on 19 February. The LGA response to the scale fee consultation was approved by Resources Lead members. We are supportive of PSAA's proposals but highlight that a great deal of information will still be unknown leaving councils (and auditors) with a lot of uncertainty. While this may be unavoidable, good communication with councils and auditors by PSAA will be essential. PSAA has also published the outcome of their consultation from last year on the process for fee variations.

23. We continue discussions with MHCLG on the implementation of the recommendations of the Redmond review. MHCLG have sent a letter to council Chief Executives with a formal proposal to postpone the audit deadline to 30 September for 2 years.

Next steps

24. Members are asked to note this update.

25. Officers will proceed with the delivery of the LGA's work in advance of the Chancellor's Budget. Officers will continue to work on the response to, and recovery from, COVID-19 as well as wider local government finance matters.

Implications for Wales

26. We are in regular contact with the Welsh LGA and the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work.

Financial Implications

27. The work related to COVID-19 has been added to the LGA's core programme of work. This unbudgeted spending will be managed within the overall LGA Group funding position which the LGA Board is monitoring.

LGA Resources Board
2 March 2021

CIPFA Consultations on the Prudential Code for Capital Finance in Local Authorities and on Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

Purpose of report

For direction.

Summary

This report outlines the consultations being undertaken by CIPFA on reviews of the Prudential code and the Treasury Management code. This, the first stage of a two-stage consultation process, focusses more on principles rather than detailed wording. This report seeks a steer from members on what points to include in a response to CIPFA, in particular in relation to the changes proposed with regard to commercial investment by local authorities.

Recommendations

Members are asked to consider the two consultations from CIPFA and the give a steer to officers on points to include in a response. The full response will be submitted to Resources Board Lead Members for clearance.

Action

Officers to draft the LGA response in line with the steer from Resources Board.

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Local Government Association

LGA Resources Board
2 March 2021

CIPFA Consultations on the Prudential Code for Capital Finance in Local Authorities and on Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes

Background

1. The Prudential Code for Capital Finance in Local Authorities (the "Prudential Code") was introduced in 2004 and last revised in 2017 for application from April 2018. The code came about through the 2003 Local Government Act which enabled councils to set their own capital financing plans. Under section 3 of the 2003 Act each local authority was given a duty to "determine and keep under review how much money it can afford to borrow." In order to do this regulations (the capital finance regulations 2003) were laid by the Secretary of State that in order to discharge that duty local authorities "shall have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" published by CIPFA, as amended or reissued from time to time". Similar regulations were laid by the Welsh Government to govern Welsh local authorities.

2. These changes were a major step in freeing local government from centrally imposed borrowing controls and the Government placing genuine trust and reliance in local government's ability to manage its own affairs according to the sector's own professional standards. The track record of local government since the Prudential Code was first introduced has shown both that local government has proved worthy of that trust and the code has an important place in enabling successful locally determined capital investment by local authorities.

3. The Treasury Management Code of Practice ("Treasury Management Code") was introduced in 2001/02. Again, local authorities are required to "have regard" to the code in setting up and approving their treasury management arrangements. In practice the code is widely used, and it is likely that any local authority not following it would be required to justify (eg to its external auditors) why it had not used it.

4. The Prudential Code, and the Treasury Management Code form two parts of what is known as the Prudential Framework. In England, the other two parts are statutory guidance published by MHCLG - Guidance on Local Authority Investments ("Investments Guidance") and the Guidance on Minimum Revenue Provision ("the MRP Guidance"). These were also last revised with effect from 1 April 2018.

5. The current consultations by CIPFA on the Prudential Code and the Treasury Management Code are the first stage of a two-stage process. The current consultations cover "principles" and close on 12 April 2021. The plan is for a second consultation on proposed new wording of the codes to be undertaken between May and August, with revised codes expected to be published and operational from October 2021.

6. The current review is being undertaken in response to the report last year of the Public Accounts Committee into local authority investment in commercial property. The 2003

Act gives local authorities the power to invest: Section 12 of this Act ("Power to invest") states that "A local authority may invest – (a) for any purpose relevant to its functions under any enactment, or (b) for the purposes of the prudent management of its financial affairs". However, the report raised questions about funding these investments through borrowing and some of the proposed changes seek to tighten the codes' rules over such investments. In its introduction to the consultation CIPFA states that "Since the Prudential Code's last review in 2017, over three years (2016/17 – 2018/19), £6.6bn was spent by councils on commercial property, with £2.3bn of that on retail acquisitions." As noted above, the revised code came into effect with effect from April 2018 at the start of the financial year 2018/19.

7. The rest of this paper highlights key questions in each consultation and seeks members views on a possible response. The full list of questions for each consultation is appended to the paper.

Prudential Code consultation and comments

8. The Prudential Code consultation asks 16 questions.

9. Questions 1 and 2 are detailed questions about statements on policy on commercial investments and are about specific wording in a paragraph in the code (paragraph 45) and a suggested additional paragraph (new paragraph 46). Question 1 asks for views on the wording on the current paragraph 45 and question 2 asks for views on changes to the wording and on a new paragraph 46.

10. Paragraph 45 currently reads: "Authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Authorities should also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds."

11. The proposed new wording of para 45 and the new paragraph 46 is as follows:

- 45. Authorities must not borrow more than or in advance of their needs primarily in order to profit from the investment of the extra sums borrowed. Therefore, local authorities must not borrow to fund primarily yield generating investments.
- 46. This prohibition does not cover borrowing where the primary aim is rooted in the function of the authority and the making of the return is incidental to the function eg regeneration. Authorities should also consider carefully whether they can demonstrate value for money in borrowing and can ensure the security of such funds. For examples how to assess this refer to the Prudential Property Investment Guidance (CIPFA, 2018).

12. The existing words in paragraph 45 have been in the code since at least 2011 (and possibly in the original code) and were not altered in the review undertaken in 2017. The

paragraph refers firstly to borrowing purely to generate a return ("more than need") and secondly to the timing ("advance of need") of loans taken out to fund capital expenditure and while it acknowledges that the timing of taking out a loan can be influenced by value for money considerations (for example better treasury management) it does not allow for borrowing early purely to invest the sums to make a return.

13. The words in paragraph 45 are also included in the Statutory Investment guidance which is issued by MHCLG for England. Changes were made to this in 2017 to apply from 1 April 2018 to say that "The definition of an investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." Prior to this the guidance referred to financial assets only. The stated intention of this particular change to the statutory investment guidance was to make it clear that borrowing to fund acquisition of non-financial assets solely to generate a profit is not prudential.

14. The intention of the changes proposed in the current review of the Prudential Code are to prevent local authorities from borrowing in order to invest in yield generating investments such as commercial property. Members may wish to take the view that:

    14.1. The proper place for such a policy is the statutory investment guidance from MHCLG (or the Welsh Government for Wales), rather than the Prudential Code. The proper purpose of the Prudential Code is to enable local authorities to assess the affordability of borrowing not to decide what that borrowing is for.
    14.2. That the proposed changes are in any case redundant and likely to cause confusion as the issue is already addressed in the statutory investment guidance using the current wording (see above).
    14.3. That the proposed changes are likely to have further unforeseen consequences as the wording is not clear, especially in the new proposed paragraph 46. For example, this paragraph refers to borrowing being allowed where "the primary aim is rooted in the function of the authority".

15. Questions 3, 4, 5, 6, 7 and 8 of the consultation cover proposed changes to the objectives of the code, largely introducing additional objectives relating to proportionality of commercial investments and to sustainability (as well as asking general questions on objectives). Such changes are unlikely to be objected to by individual councils. Question 9 proposes that the status of the code be referred to in the body of the code itself. CIPFA.

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16. Question 10 covers "proposals to include additional commentary on the assessment of affordability and the details of risks of undertaking commercial activity within the commercial activities section on determining the capital strategy". The intention is to

make risks better understood and so aid decision making. Members may take the view that this is appropriate.

17. Questions 11 to 16 cover proposed revisions to technical indicators used to calculate how much a local authority can afford to borrow. The views of individual local authorities and of finance practitioners within the sector on these proposed changes will be important.

Treasury Management Code consultation and comments

18. The Treasury Management Code consultation includes 7 questions. These are mostly aimed at strengthening the skills and knowledge within local authorities to manage treasury management activities. Treasury management is a highly specialist area that can have a big financial impact. As such it is hard to argue anything other than it needs to be managed with a high level of knowledge and skill with an appropriate and informed attitude to risk.

19. However, question 6 recommends that local authorities set up a dedicated committee to manage treasury management ("Do you agree more complex treasury management functions (ie a professional client under MiFID II legislation) means that local authorities would benefit from the support of a dedicated committee to review decisions and strategies and that CIPFA should recommend this in its guidance provided to local authorities?"). It is not clear what the role of such a committee would be – full council has to approve the Treasury Management strategy and officers have to then work within its parameters. Members may take the view that such governance issues are for individual local authorities to decide, or that the area needs to be overseen by members with specialist skills, or a specialist committee may take accountability one step further away from full council. It could be proposed that some attention should be paid to making sure the subject can be presented to members in plain language, for the intelligent non-expert. If so, CIPFA should have a role to play in helping finance practitioners to de-mystify the subject.

Next steps

20. Members are asked to consider the two consultations from CIPFA and the give a steer to officers on points to include in a response.

21. Officers will draft the LGA response in line with the steer from Resources Board. And submit it to Resources Board Lead Members for clearance.

Implications for Wales

22. The codes apply to both Welsh and English local authorities. Oversight of the regime and issuance of related statutory guidance, such as guidance in investments, is the

responsibility of the Welsh Government in Wales and MHCLG in England. Officers are discussing the implications of the proposals with the Welsh Local Government Association.

Financial Implications

23. This is part of the LGA's core programme of work and as such has been budgeted for in 2020/21 core work programme budgets.

Appendix 1 – Prudential Code consultation questions

Question 1: CIPFA is interested in stakeholders' views on the first sentence of paragraph 45? What alternatives would you suggest?

Question 2: Do you agree with the changes to paragraph 45 relating to the explanation of the sentence authorities must not borrow more than or in advance of need purely in order to profit from the extra sums borrowed? If not, why not? What alternatives would you suggest?

Paragraph 45 / 46 with proposed deletions struck through and additions in italics are

45 **Authorities must not borrow more than or in advance of their needs ~~purely~~ *primarily* in order to profit from the investment of the extra sums borrowed**. ~~Authorities should also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.~~ *Therefore, local authorities **must** not borrow to fund primarily yield generating investments*.
46 *This prohibition does not cover borrowing where the primary aim is rooted in the function of the authority and the making of the return is incidental to the function eg regeneration. Authorities should also consider carefully whether they can demonstrate value for money in borrowing and can ensure the security of such funds. For examples how to assess this refer to the Prudential Property Investment Guidance (CIPFA, 2018).*

Question 3: Do you agree with CIPFA's proposal to add proportionality to the objectives within the Prudential Code especially with regard to commercial investments? If not, why not? What alternatives would you suggest?

Question 4: Do you agree with the introduction of an objective in relation to commercial investments? If not, why not? What alternatives would you suggest?

(The proposed objective added in the consultation is
any commercial investment undertaken should be consistent with statutory provisions, proportionate to service and revenue budgets and consistent with effective treasury management practice)

Question 5: Do you agree with the proposal to add sustainability and ensuring that the capital expenditure is consistent with a local authority's corporate objectives (such as diversity and innovation) to the objectives in the Prudential Code? Please provide a reason for your response.

Question 6: Do you consider the current objectives of the Prudential Code to be relevant? Please provide a reason for your response.

Question 7: Do you consider that the provisions in the Prudential Code achieves these current objectives? If not, why not? Please provide reasons for your response.

Question 8: Do you consider that there are any areas which are not fully covered by these objectives? If yes, please expand, describing how these areas could be covered within the objectives.

Question 9: Do you agree with the proposals to include the status of the Prudential Code within the body of the Code itself. If not, why not? What alternatives would you suggest?

Question 10: Do you agree with the proposals to include additional commentary on the assessment of affordability and the details of risks of undertaking commercial activity within the commercial activities section on determining the capital strategy? If not, why not? What alternatives would you suggest?

Question 11 (including preamble)
CIPFA would therefore seek stakeholders' views on the:

- number and usefulness of the indicators used in the prudential code
- where they might be reduced if they are not considered useful
- where new indicators might be needed to support decision making
- where more explanation or description might be needed in the prudential code to ensure that local authorities understand what they measure and why they are included.

Question 11: Please provide any suggestions that you might have for how the prudential indicators could be improved (as outlined above) in order that they might provide additional assurance for public accountability. Please explain your reasoning.

Question 12: Do you agree with the addition of the new indicator for external debt to net revenue stream to assess proportionality?

Question 13: Do you agree with the addition of the new indicators for net income from commercial and service investments to net revenue stream to assess proportionality?

Question 14: Do you agree with the introduction of the liability benchmark as an affordability indicator?

Question 15: Do you consider that the liability benchmark should be included in the Prudential or Treasury Management Code?

Question 16: Do you agree with the removal of the prudential indicator gross debt and the capital financing requirement CFR on the basis that it is included as part of the liability benchmark which is to be introduced as a prudential indicator?

Appendix 2 – Treasury Management Code consultation questions

Question 1: Do you agree with the proposal that organisations that have adopted the Treasury Management Code will have to explicitly document a formal and comprehensive knowledge and skills schedule to ensure the effective acquisition and retention of treasury management skills for those responsible for the management, delivery, governance, decision-making and compliance with legislative requirements? If not, why not? What alternatives would you suggest?

Question 2: Do you agree with the proposals for what should be included in a knowledge and skills schedule?

Question 3: Do you agree with the proposals for the monitoring and review of treasury management knowledge and skills? Do you agree that these are best specified in guidance to the Treasury Management Code? If not why, not? What alternatives do you suggest?

Question 4: Do you agree that guidance to the Treasury Management Code should include specifications on key competencies for treasury management roles?

Question 5: Do you agree with the addition of a new TMP to address environmental, social and governance risks? If not, why not? What alternatives do you suggest?

Question 6: Do you agree more complex treasury management functions (ie a professional client under MiFID II legislation) means that local authorities would benefit from the support of a dedicated committee to review decisions and strategies and that CIPFA should recommend this in its guidance provided to local authorities? If not, why not? What alternatives would you suggest?

Question 7: Do you agree with the removal of the maturity structure of borrowing treasury management indicators on the introduction of the liability benchmark indicator? If not, why not? What alternatives would you suggest?

LGA Resources Board
2 March 2021

New Homes Bonus Consultation

Purpose of report

For direction.

Summary

This report provides an outline of the Government's New Homes Bonus consultation and the options set out for reform, to take effect from 2022/23 onwards. We are seeking views from Board Members ahead of drafting the LGA's response to the consultation.

Recommendation/s

That Members provide views on and discuss the options presented in the consultation to inform the LGA's response.

Action/s

Officers will develop a response to the consultation, for sign off by Resources Board Lead Members, the Chairman and Group Leaders.

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LGA Resources Board
2 March 2021

New Homes Bonus Consultation

Background

1. The New Homes Bonus ("the Bonus") was introduced in 2011, in recognition of the vital role that councils play in creating housebuilding opportunities in their area, with the intended purpose of incentivising housing development and rewarding growth. The funding currently comes from a top slice of the Revenue Support Grant and is unringfenced, for councils to spend on local priorities.

2. The Government has paid out £9.5 billion through the Bonus since its introduction in 2011, rewarding a net increase in housing stock of 2 million. The most recent consultation on the Bonus concluded in December 2016 and introduced a new baseline threshold of 0.4% growth of housing stock and reduced legacy payments from 6 years to 5 years in 2017/18, and then 4 years from 2018/19. As a result, funding through the Bonus has reduced significantly, from a total of almost £1.5 billion in 2016/17 to £622 million allocated for 2021/22.

3. At the Spending Review in November 2020, it was announced that there would be a consultation on the future of the New Homes Bonus, seeking views from the sector, with plans to implement reforms from 2022/23 onwards.

4. The consultation confirms that while the legacy payment committed in 2019/20 will be honoured, the concept will not be reintroduced. The Bonus for 2019/20 is the only remaining year with a legacy payment attached, totalling £221 million, which is reflected in allocations for the 2021/22 Bonus and will come to an end after 2022/23 financial year.

5. This paper summarises the key themes in the consultation document and sets out the options proposed, including amendments to the current system and potential new conditions of the Bonus. **Appendix A** includes the full set of questions contained within the consultation. The nature of the options in the consultation paper strongly imply that the Government is not intending to return to a larger envelope of funding for this purpose, nor is it proposing fundamental reform.

6. The LGA plans to respond to the consultation and is engaging with the sector to shape our response. This paper seeks to open the discussion around the proposed reforms, and we welcome views from members of this Board. The deadline for responses is 7 April 2021, and the sign off process for the LGA's response is outlined in the Next Steps section below.

Reform of existing elements of the Bonus

7. The consultation welcomes views on the efficacy and distribution of the Bonus:

    7.1. Whether the Bonus is an effective incentive which has proven results in influencing positive behaviour in councils and delivering ambitious housing targets.

    7.2. Whether the district and county council allocation split should remain at 80/20.

    7.3. The adequacy of the Affordable Homes Premium, in which new developments to the affordable housing supply attract a £350 additional payment per home. The consultation seeks views on retaining this and whether £350 is a sufficient amount to incentivise affordable housebuilding.

    7.4. The effectiveness of including long-term empty properties which local authorities have brought back into use as part of the Bonus.

    7.5. The time period on which payments are based – recognising the year-on-year fluctuation of housing delivery, councils are asked to consider whether a better option would be to base payment on the average of the previous three years.

8. The consultation sets out the Government's intention to change the threshold for payment, and outlines potential options for reform here:

    8.1. Option A: Raising the baseline percentage from 0.4% to 0.6%, 0.8% or 1%, with an assumption by Government that to 'sharpen' the incentive would encourage more ambitious delivery, and with potential to combine a higher baseline with a higher payment rate.

    8.2. Option B: Rewarding improvement rather than growth - the Bonus could be reformed to award councils for improving their housing delivery over an annual average of their past net additions. The stated purpose of this would be to incentivise councils to improve delivery rapidly, although it may penalise those who have a consistently high delivery rate. There is also a question included about the period of time over which a council's average should be calculated.

    8.3. Option C: A hybrid of the above options - councils would be awarded on the basis of a threshold set at the lower of the two estimates above.

New conditions to the Bonus

9. The consultation sets out proposals to repurpose the Bonus to balance the effects of lower land value areas identified as part of the new Infrastructure Levy, outlined in the government's [Planning for the Future White Paper](). The Government acknowledges that this is dependent on key elements of their proposal – currently under its own consultation process – being taken forward. The consultation does not provide technical detail on this,

but the objective would be to encourage housing development in areas of lower land value, which could mean rewarding a higher bonus for homes built in these areas.

10. A suggested condition of the Bonus is to link the threshold for payment with the use of Modern Methods of Construction (MMC), a framework established to define what the Government believes to be innovative construction techniques. The consultation sets out options for either introducing a premium for properties built using MMC or developing an MMC-related target on which receipt of the Bonus would depend. The Government acknowledges that there is limited data surrounding this currently and welcomes views on the most efficient way to gather this data for use in calculating the Bonus.

11. The Government is also considering adding an element to the Bonus with payment contingent on the council having an up-to-date local plan. There are questions around the advantage of this being a condition of the Bonus, and whether it should be paid at a reduced rate – by 25%, 50% or 75% - until an up-to-date local plan is in place.

Next steps

12. In addition to seeking the views of Members of the Resources Board, officers will engage with Special Interest Groups attached to the LGA, Treasurers Societies and other key stakeholders to shape our response.

13. The LGA’s response will be agreed by Lead Members of the Resources Board, as well as Leaders of the Political Group Offices and Chairman of the LGA.

14. The LGA encourages all councils to provide their own response to the consultation – the deadline for responses is 7 April 2021.

Implications for Wales

15. The New Homes Bonus applies to English councils only. We are in regular contact with the Welsh LGA and the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work on more general finance matters.

Financial Implications

16. This work is within the LGA’s core programme of work and carries no additional financial implications.

Recommendation/s

17. That Members provide views on and discuss the options presented in the consultation to inform the LGA’s response.

Appendix A

Summary of questions

Question 1:

Do you believe that an incentive like the Bonus has a material and positive effect on behaviour?

Question 2:

If you are a local authority, has the Bonus made a material impact on your own behaviour?

Question 3:

Are there changes to the Bonus that would make it have a material and positive effect on behaviour?

Question 4:

Should the government retain the current 80/20 split in any reformed Bonus, or should it be more highly weighted towards the District Councils or County Councils?

Question 5:

Should the affordable housing premium be retained in a reformed Bonus?

Question 6:

Is £350 per additional affordable home the right level of premium, or should this level be increased or decreased?

Question 7:

Should a reformed Bonus continue to reward local authorities for long-term empty homes brought back in to use?

Question 8:

Should the Bonus be awarded on the basis of the most recent year of housing delivery or the most recent three years?

Question 9:

Do you agree that the baseline should be raised?

Question 10:

If the baseline is to be raised, should it be raised to 0.6%, 0.8% or 1% of housing growth since the preceding year?

Question 11:

Why should the government opt for the baseline you have recommended in answer to the previous question?

Question 12:

If the baseline is to be raised, should this change be combined with higher payment rate?

Question 13:

Should the government adopt a new payment formula for the Bonus which rewards local authorities for improvement on their average past performance with respect to housing growth?

Question 14:

If the government is to adopt such a payment formula, above what percentage (x%) of average past net housing additions should the Bonus begin to be paid? In other words, what should the value of x be?

Question 15:

If the government is to adopt such a payment formula, over what period should the annual average of past net additions be calculated? Should it be a period of 5 years or 10 years?

Question 16:

Should the government adopt a new payment formula for the Bonus which rewards either improved performance or high housing growth? Please explain why or why not.

Question 17:

Above what percentage (x%) of average past net housing additions should the Bonus begin to be paid? In other words, what should the value of x be in this proposed hybrid payment formula?

Question 18:

Above what percentage (y%) increase in the authority's housing stock should the Bonus be paid? In other words, what should the value of y be in this proposed hybrid payment formula?

Question 19:

Do you agree with the proposal to repurpose the Bonus to balance the effects of the Infrastructure Levy by providing an incentive to authorities to bring forward development in lower value areas?

Question 20:

What, in your view, would be the advantages and disadvantages of repurposing the Bonus in this way?

Question 21:

If the option is to be pursued, should this reform to the Bonus be postponed until the new planning system is enacted?

Question 22:

In your view, what levers do local authorities have at their disposal to encourage uptake of MMC, and how impactful is such encouragement likely to be?

Question 23:

Should the Bonus include a premium for new homes built using MMC? Please explain why or why not.

Question 24:

If you are a local authority, would such a premium make a material impact on your behaviour? Would it, for example, encourage you to look for opportunities to bring through developments that are amenable to the use of MMC?

Question 25:

How onerous a data burden would this option impose on local authorities? Do you agree with the proposal to collect the MMC data at the point at which a local authority signs off a building as habitable?

Question 26:

Should the government make it a condition of receiving the Bonus that w% of net additional homes used MMC in order for the Bonus to be paid? If so what should the value of w be?

Question 27:

Why should or shouldn't such a condition be introduced?

Question 28:

Do you think that local authorities should be required to have a local plan, or demonstrate satisfactory progress towards one, in order to receive funding?

Question 29:

Do you think the bonus should be paid at a reduced rate until such time as a local authority has an up-to-date local plan in place, and should it by 25%, 50% or 75%?

Question 30:

If you are a local authority, would this encourage you to develop or maintain an up-to-date local plan?

Document is Restricted

Local Government Association

Note of last Resources Board meeting

Title:	Resources Board
Date:	Thursday 14 January 2021
Venue:	Online via Zoom

Attendance
An attendance list is attached as **Appendix A** to this note.

Item	Decisions and actions	Action

1 Welcome, Apologies & Declarations of Interest

Cllr Richard Watts (Chair) welcomed members to the meeting.

The following declarations of interest were noted:

Item 5:
- Cllr Keith House noted his membership on the PSAA Board.
- Cllr Amanda Serjeant noted that she was a current serving Secondary School Teacher.
- Cllr Roger Phillips noted that he was Chairman of the LGPS and a member of the PSAA Board.
- Cllr Sharon Taylor OBE noted that she was a member of the NJC's negotiating team.

2 Local Government Finance Update

The Chair invited Douglas Olley (Adviser - Local Government Finance) and Sarah Pickup (Deputy CEO, LGA) to provide an update in relation to Local Government Finance.

Douglas introduced the report which included key information on the spending review settlement, COVID-19 funding, and the upcoming budget, as well as detail on the announcements in the spending review and settlement.

- Members expressed their concerns in relation to the financial burden on local authorities as a result of additional COVID-19-related pressures and loss of income and the need to press government for a comprehensive third-way funding package for local government to manage the ongoing, severe financial pressures.

- It was acknowledged that communities and families all over the country had been hard-hit by the additional COVID-19-related pressures and increases in council tax and that relief should come from government funding, not by increasing council taxes. In many councils, there was a significant decrease in the amount of recoverable council tax and an increase in families applying for council tax support schemes.

- Members commended local government staff and public health colleagues for their continued efforts in being resilient, hard-working, and flexible throughout the COVID-19 pandemic.

- It was noted by Members that the amount of administration allowance received by councils from government was not significant enough to cope with the ever-changing lockdown and tiering system and that there was not an adequate amount of data available to support businesses and business owners.

- The contain outbreak management fund had been allocated to upper-tier authorities and was not, in many cases, being passported down to district councils.

- Members emphasised the importance of ensuring that those in need of temporary/emergency accommodation were supported, as well as colleagues in Revenues and benefits teams who were under a significant amount of pressure managing rent arrears and the additional costs associated.

- The importance of ensuring that public health services received adequate funding during the COVID-19 pandemic was noted by Members.

- Members acknowledged that businesses and business owners had been hard-hit by the lockdown measures that had been put in place as a result of the COVID-19 pandemic, and that many businesses were not eligible for the business support schemes. It was noted by Members that many councils had been instructed by government to use additional restrictions grants to support businesses and business owners, despite the grant needing to last until March 2022. Members also noted that the grant system needed to be simplified and more comprehensive to ensure that all businesses and business owners were supported.

- Although Members were mindful that every council faced different pressures in relation to service provision and funding, it was noted that an equitable scheme, suitable in all tiers of local government and all parts of the country, was much needed.

- Members were keen for further information in relation to planning and preparing for the recovery phase of COVID-19, both in terms of the immediate support for staff, businesses, and business owners and what the current pressures would mean for future local authorities' budgets.

- Members emphasised the importance of focusing on future direction in relation to the spending review and the local government finance settlement.

- Members acknowledged that spending additional monies during these unprecedented times would have a severe impact on future social, economic, and environmental costs and that there was a fundamental need to push back to government for extra financial support.

- Sarah referred to the LGA's reflection on the local government finance settlement and stated that whilst it was better than expected, and councils were granted more flexibility and power, it still meant that councils would face difficult decisions in terms of raising council taxes and placing a financial burden on residents.

- In relation to ensuring that all COVID-19-related costs and lost income were covered by government, Sarah confirmed that the LGA continue to work closely with the Ministry of Housing, Communities and Local Government (MHCLG) to explore the returns on expenditure and income losses, lobby for additional funds where necessary and to ensure that funding for new burdens is addressed adequately.

- Sarah emphasised the importance of continuing to address current pressures and briefly touched upon two key issues:

  - Adult Social Care (ASC) funding reform -
  - The need to diversify funding sources for councils.

  A task and finish group on Local Government Funding (chaired by Cllr Richard Watts) would scrutinise and submit feedback to the Executive Advisory Board in relation to the range of work required going forward.

- Sarah reassured Members of the Board that their comments would continue to be taken onboard and fed into discussions which related to the local government finance settlement.

- In relation to the public health grant, Douglas confirmed that the LGA would continue to push for the grant to be announced as soon as possible and that discussions which related to the proliferation of the grants would continue.

The Chair summarised the discussion and stated that making a case to government, which emphasised the fact that council tax would not be an appropriate way of funding ASC long term, was crucial.

Decision
Members of the Resources Board noted the update.

3 Support for Low Income Households Update

The Chair invited Rose Doran (Senior Adviser) to provide an update in relation to support for low income households. Rose summarised the following three key points:

1. A survey was being conducted to look at the support that councils across the country continued to provide to low income households and capturing some of the pressures that they had been faced

with.

2. The re-shaping of financial support programme which was progressing well.
3. Self-isolation payments and the need for additional funding to effectively manage admin pressures and provide wider support to self-isolation households.

- In relation to self-isolation payments, Members raised concerns which related to individuals switching off the test-and-trace app so that they were not traced and tested, because if they were, they would not get paid for their trade work and cannot afford to take time off to self-isolate. Members noted the need to highlight the issue to government that the entire funding that they provide to councils for self-isolation should be discretionary to allow councils to decide where it is allocated.

- It was noted by Members that admin pressures on Housing Benefits and Council Tax Support teams were severe.

- Members welcomed the additional funding and were in favour of the eligibility criteria review as a large number of people that needed the support grant were applying for it and did not meet current criteria.

- With regards to people reluctant to self-isolate as they could not afford to cease working, Members questioned whether there was specific data available to help both local and national government address the issue.

- Rose stated that the Department of Health and Social Care (DHSC) had been collecting data by the dashboard which highlighted challenges in relation to the need for local discretion. The data collation examined case studies in terms of how councils had approached wider support to households who had been asked to self-isolate. She encouraged Members to share data from their own areas to feed into the DHSC's data collation. She added that work with colleagues in Public Health and the Community Wellbeing Board in relation to supporting low income households continued.

- Rose reassured Members that all of the comments and concerns that had been raised, particularly in relation to eligibility, would be built into the ongoing conversations that LGA colleagues continued to have with public health colleagues and the DHSC.

Decision
Members of the Resources Board noted the verbal update.

Action
Officers to provide a brief written, bullet-pointed update for Board members to summarise the action being taken to support low income households.

4 Redmond Review

The Chair briefly introduced the report which outlined the main points in the response from the Government to the recommendations in the Redmond Review. He then invited Bevis Ingram, Senior Adviser, to provide an update.

Bevis stated that the Department for Communities and Local Government (CLG) were implementing some of the recommendations outlined. The LGA continued to work with CLG and welcomed comments and questions from Members of the Board.

- Members noted a number of concerns in the response to government, particularly in relation to audits. Cllr Sharon Taylor, in her role as Finance Lead for the District Councils Network, had requested a meeting with the Public Sector Audit Appointments Limited (PSAA) to discuss the increasing delays in producing audits and the complex issues that auditors continued to face.

- Reference was made to the Public Works Loans Board (PWLB) loans and Members emphasised the importance of local decision-making and budget management. The hard work being undertaken throughout the COVID-19 pandemic by local government staff was commended by Members.

- The Chair confirmed that the engagement work with central government would continue.

Decision
Members of the Resources Board noted the contents of the report and the need to continue to engage with MHCLG on the implementation of recommendations and further consideration of system leadership options.

5 Workforce Update

The Chair invited Naomi Cooke (Head of Workforce) and Jeff Houston (Head of Pensions) to provide an overview of recent activity. In their update, Naomi and Jeff raised the following points:

- In relation to schools, Naomi referred to teachers' pay outlined within the report and stated that the LGA had been heavily involved in discussions with the Department for Education (DfE), unions, councils, and other school employer groups to produce guidance as and when possible.

- With regards to school support staff, covered by the National Joint Council (NJC) for Local Government Services, the LGA continued to work on some joint guidance which related to the redeployment of support staff. The LGA continued to reflect to the DfE that some schools across the country were under severe strain due to the combination of increased staff absence, increased used of critical worker provision and the extension of access to children with insufficient access to I.T equipment.

- A COVID-19 workforce survey had recently been circulated and the LGA would use the data collected from the survey to support discussions with the DfE.

- With regards to local government pay, Naomi informed Members that the LGA expected the claim from trade unions to be sent to the National Employers towards the end of the month. The National Employers would then convene to discuss next steps.

- Jeff outlined ongoing work in relation to the judicial reviews and confirmed that three applications for judicial review in relation to exit regulations had been given permission for hearing. The hearings would all take place together over a 2-day period on or after 16 March 2021.

- Jeff stated that the awaited new MHCLG regulations would prevent the ombudsman from reviewing other cases until the hearings had been completed, which meant potential legal uncertainty continuing into the new financial year. The LGA continued to support councils by regularly updating guidance in relation to the actions that needed to be taken and the communication that needed to be relayed to employees.

Decision
Members of the Resources Board noted the report.

6 EU Funding Update

The Chair invited Paul Green (Adviser) to provide an update in relation to Local Government Preparedness for EU Exit.

Paul introduced the report which updated the LGA Resources Board on UK-EU Trade and Cooperation Agreement, and the work that the LGA had undertaken to support councils in preparing for Britain's exit from the EU and the end of the transition period. He highlighted several key issues which were a result of the end of transition period and explained in detail the work being undertaken to address the issues.

- A Member referred to paragraph 17 within the report, which related to setting up task groups to support UK Shared Prosperity Fund (UKSPF) conversations, and asked about the work that had been undertaken by the LGA in terms of agreeing the membership of the task groups.

- Members expressed their views in relation to the role of Local Enterprise Partnerships (LEPs) regarding EU Exit funding.

- It was noted by Members that local authorities needed an adequate voice in relation to the way in which the UKSPF was allocated.

- In relation to the membership of the local government UKSPF task groups, Paul confirmed that the terms of reference, proportionality and membership had not yet been determined. He added that more information would be circulated to Members of the Board in due course.
- Paul referred to the European Structural and Investment Funds (ESIF) programme regarding the EU Social Fund, the LGA had joined a working group to discuss the remainder of unallocated funding, the way in which the funding could be processed faster, and the way in which the LGA could use national programmes to distribute money from the Department for Work and Pensions (DWP) as quickly as possible.

Decision

Members of the Resources Board noted the report and made comments on the current work being undertaken by the LGA.

Action

Officers to circulate further information to Members of the Board in relation to the membership of the local government UKSPF task groups, once determined.

7 Minutes of the previous meeting held on 17th November 2020

Members of the Resources Board agreed the minutes of the previous meeting on 17th November 2020 as an accurate record.

Appendix A - Attendance

Position/Role	Councillor	Authority
Chairman	Cllr Richard Watts	Islington Council
Vice-Chairman	Cllr Tim Oliver	Surrey County Council
Deputy-chairman	Cllr Keith House	Eastleigh Borough Council
	Cllr Jason Zadrozny	Ashfield District Council
Members	Cllr Philip Atkins OBE	Staffordshire County Council
	Cllr David Finch	Essex County Council
	Cllr Daniel Humphreys	Worthing Borough Council
	Cllr Peter Jackson	Northumberland Council
	Cllr Roger Phillips	Herefordshire Council
	Cllr Richard Wenham	Central Bedfordshire Council
	Cllr Bev Craig	Manchester City Council
	Cllr Erica Lewis	Lancaster City Council
	Cllr Amanda Serjeant	Chesterfield Borough Council
	Cllr Peter Marland	Milton Keynes Council
	Cllr Adam Paynter	Cornwall Council
	Cllr Phelim MacCafferty	Brighton & Hove City Council