

# Cabinet Report

Report of Head of Finance

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To: CABINET

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## New Homes Bonus Interim Policy

### Recommendations

That Cabinet:

1. ring fences all funding it receives through the new homes bonus (excluding affordable housing premium) to support the following priorities (in descending order of priority);
  - a) achieving a balanced budget (supporting the revenue account)
  - b) achieving a balanced budget (supporting the capital programme)
  - c) provision of New Homes Bonus grant to support community schemes to be allocated to areas committees for distribution
2. ring fences the affordable housing premium to support the delivery of further affordable housing schemes.

### Purpose of Report

1. This report invites cabinet to agree an interim policy regarding the use of new homes bonus.

### Strategic Objectives

2. New homes bonus (NHB) has the potential to assist the council to deliver all of its strategic objectives. Having a sound policy in place to govern its use is essential in meeting the effective management of resources objective

## Background

3. The Government introduced NHB in 2011. It is designed to incentivise councils to increase housing growth by rewarding them financially for such growth.
4. The detail of the scheme is well-documented elsewhere and is only repeated here in summary:
  - it is a cumulative scheme that will build up year on year until, from 2016/17 onwards, the annual payment equals the sum of the amount of NHB generated for each of the previous six years
  - we retain 80 per cent of the total generated, the rest goes to Oxfordshire County Council
  - the amount payable each year is based on upward changes to the council tax base October to October. This is a complicated calculation. Whilst the number of new homes built is dominant, there are a number of other factors included in the calculation, such as empty properties returning to use and demolitions
  - the amount payable per property is equivalent to the national average band D council tax (for 2012/13 this is approximately £1,440, of which we keep 80 per cent), with a supplement of £350 for each new affordable home

## Expected levels of NHB

5. The table below sets out the amount of money that the council expects to receive over the next six years. The figures for 2011/12 - 2013/14 are known, the remainder are speculative based on officers' best estimates of housing completions over the next three years. All have been included in the medium term financial plan to 2016/17.

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Year 1	452,000	452,000	452,000	452,000	452,000	452,000
Year 2		546,000	546,000	546,000	546,000	546,000
Year 3			376,000	376,000	376,000	376,000
Year 4				596,000	596,000	596,000
Year 5					648,000	648,000
Year 6						1,135,000
Annual total	452,000	998,000	1,374,000	1,970,000	2,618,000	3,753,000
Cumulative total	452,000	1,450,000	2,824,000	4,794,000	7,412,000	11,165,000

## Priorities for use of NHB

6. Whilst the council can look forward to receiving substantial amounts of NHB over coming years, what it does not know is how its core funding from government will change over that period. We now know the mechanics of that change - localisation of business rates and council tax benefit alongside the introduction of universal credit -

but the financial impact is very difficult to project. It would be very shortsighted to specify now how we intend to use all of the NHB we expect to receive over the next six years, only to find that within 12 months we have to re-prioritise some of those funds to support essential services.

7. In setting the 2013/14 budget therefore, officers propose that we adopt a cautious approach towards the allocation of NHB. We can make some of this money available for wider use but we propose that cabinet sets the bar high for accessing it and allocates funds to support specified areas of expenditure in a priority order. Paragraphs eight to 12 are written in the form of a policy that we invite cabinet to adopt.

### **Affordable housing**

8. The council receives a premium of £350 for each affordable home that is built and occupied. Given the demand for affordable housing within the district, we will ring fence all of this premium to support the provision of additional affordable homes. The amount accrued at the end of the second year of the scheme is £68,320.
9. Cabinet will consider release of the ring-fenced money at any time to support appropriate proposals brought to it by the Head of Housing and Health.

### **Supporting revenue and capital budgets**

10. The ongoing reduction in government funding is creating pressures within local authority revenue and capital budgets. Until we have greater certainty about overall funding levels and the way the new local government funding arrangements will impact on the council it is considered prudent that NHB should be used to support all council priorities. It is felt that this is best done by using NHB to:
  - a) achieve a balanced revenue budget
  - b) support the capital programme
11. Should money remain after achieving these aims, this should be made available for grant funding of one-off schemes benefiting communities. This money will be allocated to area committees, pro rata to the increase in the council tax bases in each area, to be used to support community schemes.
12. A recommendation detailing how NHB will be used and the proportion to be allocated to area committees (should money remain to allow this) will be made as part of the budget setting process.
13. Once the level of future funding that the council can expect to receive becomes clearer, cabinet may consider introducing a more comprehensive policy on the use of new homes bonus. We anticipate that this will be after the interim policy has been operating for at least one year.

### **Options**

13. Options for use of NHB largely relate to whether to spend the money more or less quickly and/or to spend it on a wider range of activities. Officers consider that using the money in the ways described above is prudent and that it is sensible at this stage to keep a narrow focus on how to best use it.

## **Risks**

14. The risk around NHB is that housing development may stall and NHB may not accrue as quickly as anticipated. The cautious proposals set out in this report takes account of this possibility.

## **Financial Implications**

15. The Government has already given us £452,000 and £998,000 in 2011/12 and 2012/13 respectively and committed to give a further £1,374,000 in 2013/14. There is, therefore, no financial risk associated with the proposed use of these funds.

## **Legal Implications**

16. NHB funding is not ring-fenced for any particular purpose so the council has a wide level of discretion in how it chooses to use the funding that it receives.

## **Conclusion**

17. NHB is a new phenomenon that, over a relatively short period of time, will provide a boost to the council's income. Because there is still great uncertainty about the future funding of local government, officers consider that cabinet should adopt a cautious approach to its use. The proposals in this paper reflect that, but also provide the first opportunity to put the money to good use to support new affordable housing schemes and other community projects.

## **Background Papers**

None