



New Homes Bonus and the Local Growth Fund : technical consultation
Response from the Northern Housing Consortium
September 2013

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The Northern Housing Consortium represents the views of housing organisations in the North of England. With over 30 years of expertise and influence, and unrivalled respect and credibility within the housing sector, we are the North's leading housing membership body. Our membership encompasses local authorities, arms-length management organisations and housing associations across the North of England.

We have been closely monitoring the evolution of housing incentivisation policy, and issued a report on the New Homes Bonus – *['Risks and Opportunities for the North'](#)*¹, back in September 2011. Our concerns at that time were that a 'top-slice' of Formula Grant to part-fund the Bonus would disproportionately impact on authorities in the North of England. Conversely, these same authorities were not well positioned to replace any shortfall with income from the Bonus itself, due to the lower market value of housing in these areas. We recommended that in future, New Homes Bonus should be funded independently of the Formula Grant system.

We welcome the opportunity to respond to this consultation on the mechanism to be used to achieve the pooling of £400m of New Homes Bonus through local enterprise partnerships.

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¹ http://issuu.com/northernhousingconsortium/docs/new_homes_bonus_final

Consultation question 1

We would welcome views on the underlying principles of pooling the New Homes Bonus in this way, with specific regard to ensuring that pooled funding remains in the Local Enterprise Partnership Area where it originates and that the method of calculating the Bonus remains unchanged.

We are supportive of the concept of a Single Local Growth Fund. It is right that Local Enterprise Partnerships are given influence over funding which supports economic growth. However, New Homes Bonus differs in several respects from the other funds being included in the Single Local Growth Fund:

- Unlike the other items included in the Single Local Growth Fund, New Homes Bonus is not a government grant for specific purpose which is being devolved alongside the corresponding responsibilities. NHB is currently an un-ringfenced grant to local authorities. Pooling this money at LEP level actually amounts to an act of centralisation, and insisting that it is spent on 'strategic housing and other local economic growth priorities' introduces an element of hypothecation not previously present. This is discordant with the Government's commitment to localism.
- The majority of New Homes Bonus funding comes from a top-slice of local authority funds. The NAO forecast that by the time pooling is introduced, the NHB will be worth some £1.14bn. Only £250m per annum comes from central government (and this replaced a similar amount allocated to the defunct Housing and Planning Delivery Grant to local authorities). The other £890m is from local government funds. Even setting aside the £250m from central government, the £400m 'pooling' proposal represents a loss of £150m for local government.
- Previous commitments have been given to local government regarding the income from the NHB. The Final Scheme Design stated that the New Homes Bonus would be "*Predictable* - the scheme is intended to be a permanent feature of local government funding and will therefore continue beyond the six-year cycle. The design features have been kept simple and stable to ensure that expected rewards for growth are delivered." The decision to introduce a mandatory pooling scheme only two years into the Bonus' operation will damage confidence in the scheme amongst local government and in communities.

We do welcome the suggestion from Government that Local Enterprise Partnerships include housing in their plans to support economic growth. The Consortium commissioned research from the Centre for Regional Economic and Social Research at Sheffield Hallam University, which has highlighted the positive contribution of housing providers to the North's economy. We support 116,900 jobs across the North, and add £4.6bn of GVA to the Northern economy each year². LEPs will find willing and able partners in the housing sector.

Consultation question 2

The first mechanism is that an equal percentage of all New Homes Bonus allocations will be pooled to the lead authority of their Local Enterprise Partnership, the precise percentage to be determined, but will be that necessary to make £400m nationally. Do respondents consider this to be an appropriate method?

The proposal to have a fixed £400m 'ceiling' on the funds to be pooled reduces the power of the incentive. In order to increase receipts from the NHB, LEPs would have to increase housebuilding by more than the national average. Any increase beneath the national average would lead to the NHB element of the Single Local Growth Fund reducing for the LEP concerned.

² See <http://www.northern-consortium.org.uk/economy>

We have concerns about the impact this will have on communities in the North. The North's housing market has traditionally been weaker than that in London and the South East, for a range of structural reasons. As growth returns to the economy, it is likely that house-building will increase across the country, but the recovery is likely to be particularly strong in London and the South East. It is difficult to imagine how LEPs in the North to engineer their local housing markets so that their area 'outperforms' the national average – but a failure to do so will almost certainly result in receipts from the NHB element of the Growth Fund reducing in cash terms. This does not provide an effective incentive for LEPs to prioritise house-building in their Strategic Economic Plans.

The £400m figure appears rather arbitrary, and whilst we would prefer a voluntary system of pooling arrangements, if Government is minded to mandate pooling at LEP level, we believe that a system whereby a fixed percentage of Bonus receipts (say 20-30%) were pooled would maintain incentives and avoid any perverse results. This would also be consistent with the way the existing 'top-slice' of 20% of Bonus receipts for County Councils operates in two-tier areas.

Consultation question 3

The second mechanism would act as described above for all areas with a single tier of local government (unitary authorities, metropolitan boroughs, etc). Where areas have two tiers of local government (lower tier district councils and upper tier counties) the alternative distribution mechanism would operate whereby upper tier authorities would surrender all of their New Homes Bonus, with the balance coming from the lower tier. Do respondents consider this to be a preferable method of pooling for two tier areas?

In two-tier areas New Homes Bonus largely rewards the lower tier authority. 80% of receipts go to the district council. In many ways, this is correct, as it is the district authority which needs to take the decision to grant permission for new housing. The Bonus therefore provides a financial incentive for them to plan for additional housing supply. However, it is the upper-tier authority which shoulders many of the costs of growth – for example providing additional school places etc.

Whilst our preferred outcome would be that no mandatory pooling occurs, we do have to recognise that the New Homes Bonus forms a far larger proportion of a lower-tier council's income. The National Audit Office found that on average, it represents 5% of a district council's income³. In those circumstances, we therefore would reluctantly support the option whereby County Councils surrender their more limited income from the Bonus, in order that district councils are better protected from a sudden and large reduction in funding. Whilst it will not be easy for County Councils to cope with a further reduction in funding, their larger overall budget and smaller exposure to New Homes Bonus makes them more resilient to such a cut than their district equivalents.

Consultation question 4

Do respondents consider that the content of the proposed condition placed on the section 31 grant will be sufficient to enforce the local pooling of the New Homes Bonus funds?

If the Government is minded to make pooling a mandatory feature of the New Homes Bonus, then including a condition under section 31 seems a reasonable way to ensure the correct proportion is passed

³ *'The New Homes Bonus: Report By The Comptroller And Auditor General'*, NAO March 2013:
http://www.nao.org.uk/wp-content/uploads/2013/03/10122-001-New-Homes-Bonus_HC-1047.pdf

to the lead authority of the LEP concerned. However, we would argue that a mandatory pooling system is not the best way to proceed.

Consultation question 5

The government considers that the existing accountability arrangements for Local Enterprise Partnerships should apply to pooled funding as these are considered to provide sufficient safeguards for the protection of spending. Do recipients agree?

We believe the existing arrangements would suffice for pooled funds.

Consultation question 6

Do recipients agree that locally pooled New Homes Bonus in London should pass to the Greater London Authority to be spent under existing arrangements?

The Consortium's Full Membership is limited to the three northern regions of England, so we do not take a position on the allocation of funding within London.

Consultation question 7

Do you agree that where an authority is a member of more than one Local Enterprise Partnership, then the proportion to be pooled should be divided equally amongst the Local Enterprise Partnerships?

We believe this division should be agreed locally. Some of the authorities which are members of more than one Local Enterprise Partnership see one Partnership as more significant, or wish to collaborate with each partnership on different issues (e.g. see one partnership as important for transport links, another as more significant for business support). Given these nuances, we believe it would be more sensible to ask the local authorities involved to agree an apportionment at local level, than to impose an arbitrary 50/50 split.

Consultation question 8a

The Government proposes that where local authorities can demonstrate that they have committed contractually to use future bonus allocations on local growth priorities, Local Enterprise Partnerships should take this into account when determining their local growth plan and their priorities for using pooled funding. Do respondents agree with this proposal?

This is extremely important. Given that local authorities had been told that the New Homes Bonus would be a permanent feature of the local government finance system, some have entered into commitments based on future NHB receipts. The Consortium highlighted two very positive uses of Bonus receipts to support prudential borrowing in Sefton and Blackpool in our September 2011 publication on the New Homes Bonus⁴. Given local authorities entered into these arrangements in good faith, LEPs should ensure that any pooling mechanism does not put these projects in peril.

Consultation question 8b

If respondents disagree with question 8a are there alternative approaches for dealing with such commitments?

Not applicable.

⁴ See p.19-20 'New Homes Bonus: Risks and Opportunities for the North'
http://issuu.com/northernhousingconsortium/docs/new_homes_bonus_final

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Consultation question 8c

Are there other circumstances in which a spending commitment should be taken into account by the Local Enterprise Partnership?

We are not aware of specific examples, but believe that our proposal for voluntary pooling would enable such circumstances to be responded to flexibly.

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