

Cabinet – 14 September 2011

New Homes Bonus

Portfolio:	Councillor Adrian Andrew, Deputy Leader, Regeneration
Service:	Regeneration – Development and Delivery
Wards:	All
Key decision:	Yes
Forward plan:	No

1. Summary

This report seeks approval to use the 2011/12 NHB allocation to stimulate new housing provision across the Borough's six partnership areas, and it sets out a process for how the NHB available in 2011/12, which (excluding the £45,000 required to support the production of development plan documents) this year totals £866,506, should be allocated. Cabinet will recall a report in July 2011 which confirmed the Council's New Homes Bonus ("NHB") allocation of £911,506 for 2011/12, agreed the investment principles for NHB, requested that a future report be submitted outlining specific proposals for the investment of NHB, and agreed to invest up to £135,000 of NHB to produce development plan documents (being £45,000 per annum for 3 years).

2. Recommendations

Cabinet is recommended to agree:

- 2.1 That the remainder of the New Homes Bonus (NHB) allocation for 2011/12 of £866,506 only is used to assist specific new housing developments in the Borough, as far as possible equitably across the Borough's six partnership areas, with the developments selected by using the outline scoring matrix set out in **Appendix 1**.
- 2.2 The outline scoring criteria set out in **Appendix 1** to enable the assessment of any applications made to the Council from third parties for funds to stimulate the provision of new homes in the Borough in 2011/12.
- 2.3 That authority to develop a process, compliant with the Council's Contract Rules 2010, to allocate the balance of the 2011/12 NHB funds to support the development of new homes in the Borough, be delegated to the Executive Director Regeneration, in consultation with the Regeneration Portfolio Holder

- 2.4 That authority to take decisions to allocate the balance of the 2011/12 funds to third parties or otherwise to support the development of new homes in the Borough, by way of a loan, grant or an alternative form of intervention, be delegated to the Executive Director Regeneration, in consultation with the Regeneration Portfolio Holder, taking into account the agreed scoring criteria.
- 2.5 That authority is delegated to the Executive Director Regeneration to sign or approve the sealing of any deeds, contracts and other related documents with third parties for the NHB funds that are to be allocated to stimulate the provision of new homes within the Borough using the balance of the 2011/12 allocation.
- 2.6 That a further report be submitted to Cabinet in December 2011,
- outlining specific criteria for investment of the balance of NHB in line with the agreed NHB investment principles over future years,
 - proposing detailed arrangements for the management of the programme, including financial and staffing implications.

3. Report detail

- 3.1 As reported to Cabinet in July 2011, NHB has been introduced as part of the Government's planning reforms and is intended to provide an incentive to local authorities to encourage the delivery of new housing development. NHB is calculated on the basis of the number of new homes completed in the authority's area, and payment will be made for a period of 6 years from the date that a home is first recorded as having been completed.
- 3.2 The Government has confirmed that, as a reward for new homes built and added to the Council Tax Base over the 12 months to October 2010, the Council will receive a payment of £911,506 for the first year from April 2011 and a total payment over the next 6 years of £5,469,036. New homes completed over the 12 months between October 2010 and October 2011 will also attract a payment for the following 6 years which will be added to the above sums. The size of the payment for this second year is not yet known, but based on the number of new homes completed in the year to date, it is likely that the size of NHB award in year 2 will exceed the award received in year 1.
- 3.3 The July 2011 report advised that in year 1 NHB is entirely "new money" whilst a proportion in years 2 to 4 will also be new. The exact proportion will depend on how successful NHB is in promoting additional housing. Funding beyond the annual level of £250m that has been set aside nationally will come from formula grant. It is therefore important to maximise spend in the first year of the scheme in a way that will achieve the greatest return on investment.
- 3.4 At its meeting on 27 July 2011, Cabinet agreed six investment principles to guide the future use of NHB funding:
- Supporting strategic acquisitions and development funding
 - Developing and maintaining a policy base to support future development
 - Supporting economic regeneration
 - Stimulating future new homes provision
 - Bringing empty homes back into use
 - Providing for gypsies and travellers

At the same meeting, Cabinet also agreed that NHB should fund the production of development plan documents at an overall cost not exceeding £135,000, split equally at £45,000 over three consecutive years.

- 3.5 Given an overall award of £911,506 in 2011/12, and an existing Cabinet commitment to allocate £45,000 of this award to support the production of development plan documents, there is a further £866,506 of 2011/12 NHB funding available. Cabinet is recommended to allocate all of this £866,506 to stimulate the provision of new homes in the Borough. There are clear advantages in supporting this form of investment early, including:
- Investing in stimulating new homes will create greater NHB awards in future years and help to grow the Council Tax Base, therefore leading to an increase in the Council's income,
 - Creating construction jobs and supporting local supply chains through the Think Walsall initiative, thus underpinning the Council's priority of supporting the economy.
 - It is also likely to be easier to structure and therefore be more deliverable in the short term.

It also has the potential to accelerate the redevelopment of derelict sites, and/or partially completed sites or kick start sites that haven't yet commenced on site. Finally, it will create much needed new homes for the people of Walsall, and have the added benefit of helping to attract and retain the spending power of new and existing residents in Walsall's economy.

- 3.6 In order to introduce an equitable approach which stimulates the delivery of new homes across the Borough, it is proposed that the funding will as far as possible be distributed evenly to support new homes projects across the Borough's six partnership areas. It is anticipated that individual schemes supported will be of at least 10 units in total, and will mean that, at the very least, 60 new homes are delivered across the Borough. So as to comply with State Aid requirements, no housing provider/developer will be awarded more than the equivalent of 200,000 Euros of grant funding (approximately £175,000 at current exchange rates), and loans will need to either be for amounts below this threshold or on commercial terms at rates that are again compliant with the State Aid requirements.
- 3.7 The distribution of the NHB in 2011/12 will complement the Council's Housing Strategy 2011-16, the HCA's award of Social Housing Grants, and wherever possible, the Council's Local Investment Plan. So as to promote an open and transparent process it is proposed that the availability of funds will be widely advertised through a variety of media, potentially supported by a press release and a launch event. A project team has been established to develop a protocol for the management of the process, and therefore the assessment of applications, so that the process can go live as soon as practicable, subject to Cabinet's approval to this report. The final management proposals will be addressed in a report to Cabinet in December 2011.
- 3.8 Applications for NHB funding will be submitted for assessment against the proposed robust scoring criteria set out in **Appendix 1**, which takes account of the HCA's Kick start funding criteria. This assessment, the establishment of a process compliant with the Council's Contract Rules 2010 and the decisions to allocate the funds will be undertaken by the Executive Director Regeneration in

consultation with the Regeneration Portfolio Holder. Central to the scoring criteria should be local economic benefits (Think Walsall), impact, value for money and deliverability; there is a requirement for projects to be able to commence on site within a short period of time.

- 3.9 Wherever possible, awards of NHB should be made as loans, rather than grants, so that in future years these loans are returned effectively as additional funds which may be recycled to help support future regeneration activity. Feedback from some developers has suggested that provision of a loan is necessary to stimulate housing growth because of the difficulty of obtaining bank loans. These loans would ideally be at commercial rates, but the Council may have to consider interest free loans. If housing providers show only a limited interest in the provision of loans, the Council may have to consider the award of grants, and feedback from housing associations suggests that a small grant may help to unlock some of their sites.
- 3.10 This report primarily deals with establishing a process to allocate the 2011/12 NHB to stimulate the provision of new homes in the Borough. However, the recommendation at paragraph 2.5 proposes that a further report will be submitted to Cabinet in December 2011 to outline specific criteria for investment of the balance of NHB in line with the agreed NHB investment principles over future years, and to propose detailed arrangements for the management of the programme, including financial resources required and implications for staffing.

4. Council priorities

As expressed in the Corporate Plan 2011/12 – 2014/15, part of the Council's shared vision for the Borough is that Walsall will be a great place to live, work and invest, where “everyone has the chance to live in a home fit for their purpose and fit for their future”. Furthermore, one of the three priorities for the Council is the economy, and within this there is a requirement that “our living/housing environments retain and attract the workforce required to develop our economy”. If Cabinet approves the allocation of the NHB funding to stimulate the provision of new homes in the Borough, then this decision will help to deliver the shared vision for the Borough and underpin the Council's economic priority.

5. Risk management

- 5.1 NHB offers a new source of funding that is not required to be earmarked for any specific purpose. It therefore represents an excellent opportunity for the Council to stimulate development opportunities and new home growth, which in turn will help to create jobs and economic growth, and ultimately larger NHB awards in the future. However, by inviting housing providers/developers to bid for financial assistance, there is a requirement that a robust and transparent process is in place so that the Council's decision making processes can be defended if challenged.

- 5.2 It is proposed in this report that the 2011/12 NHB funding will as far as possible be distributed evenly to support new homes projects across the six partnership areas. However, despite a proactive approach to raising awareness, there is a risk to the Council that no bids will be forthcoming, or that the bids will be concentrated in certain areas, rather than across the Borough. Similarly, the 2011/12 NHB allocation could be over-subscribed, the bids may be of poor quality not meeting the Council's scoring criteria, or partners may not find the Council's terms and conditions acceptable. These risks could occur and will have to be addressed in the successful allocation of NHB funds.
- 5.3 There will be a risk of non repayment of loans, though this can be mitigated through contractual agreements. The Council will seek to secure a charge on the land (though banks may be the first charge in such circumstances), and will use its experience of developing loan agreements with housing developers to inform the process. There is also a risk that loans may not be taken up by housing providers, and that the Council may have to consider the provision of grants to stimulate new homes growth.

6. Financial implications

- 6.1 The NHB award for 2011/12 is £911,506, and that will equate to a total payment of £5,469,036 over the next six years. Based on the number of new homes completed this year to date, it is estimated that the size of NHB award in year 2 will exceed the award received in year 1. Eventually NHB is to be funded from formula grant settlement. However, additional central Government money, will fund the full cost in year 1 (2011/12), and a falling proportion across years 2 to 4 (2012/13 – 2014/15).
- 6.2 It is the intention, wherever possible, to seek loans. These could vary from zero interest rate to commercial rates, and obviously the Council will seek the best rate possible, whilst ensuring that the offer is attractive enough to fulfil the original purpose of stimulating new housing provision. Within this, the Council could consider offering more attractive rates to loan repayments which are made over shorter periods of time. However, it should be considered that there may be a greater interest in receiving grants, rather than loans, and in such circumstances the Council may seek an up-lift or share of profit agreement. These processes will be dependent upon the Council entering into contractual agreements with housing providers/developers, and there will therefore be ongoing financial implications for this process to work.
- 6.3 Cabinet will be asked at its December meeting to consider the wider issue of identifying mechanisms for delivering strategic regeneration objectives, from a variety of funding sources, including NHB.

7. Legal implications

- 7.1 As noted elsewhere, by inviting housing providers/developers to bid for financial assistance, there is a requirement that a robust, open, fair and transparent process (compliant with the Council's Contract Rules 2010) is in place so that the Council's decision making processes can be defended if challenged.

- 7.2 The allocation of funds to successful applicants also needs to be compliant with State Aid rules. Applicants will be expected to confirm that their bids are State Aid compliant. In order to avoid the implications of unlawful State Aid, it is necessary to ensure that the allocations are within the provisions of the de minimis State Aid block exemption, which has a limit of 200,000 Euros. A loan could be offered above this value if it were to be made at a commercial interest rate compliant with State Aid guidelines. As part of the regulation it is necessary for the company to complete a declaration stating that they have not received other de minimis State Aid over the last 3 fiscal years, which in aggregate would push the overall aid as a company beyond the threshold. However, if a company has received de minimis State Aid over the last 3 fiscal years, it will still be possible to offer a grant/loan if they are proposing a social housing scheme as this can be provided on the basis of Article 2.1(b) of the European Commission's 2005 "block exemption" decision in respect of services of general economic interest or "SEGI".
- 7.3 The Council will need to enter into contractual agreements with selected partners which may include taking a legal charge over the land being developed. There are ongoing legal implications for this process and Legal Services will be involved at each stage.

8. Property implications

As bidders will have to be landowners to be eligible, there are no direct property implications for the Council associated with this report. However, future NHB reports will propose mechanisms for delivering the other agreed investment principles, including that of pursuing further strategic acquisitions to support regeneration and the economic growth agenda.

9. Staffing implications

There will be ongoing implications for staff in the Regeneration Directorate and Resources Directorate (Finance Services and Legal Services) in administering the allocation of NHB. The proposed report to Cabinet in December 2011 will address in greater detail the opportunities for working smarter principles to be applied to this process. However, it is considered that the first year programme to stimulate new housing provision can be managed from within the Regeneration Directorate, and Members should be reassured that officers have gained expertise from the successful delivery of the Regional Housing Pot programme. A project team has been established to develop a protocol for the management of the process (compliant with the Council's Contract Rules 2010), and therefore the assessment of applications, so that the process can go live as soon as practicable, subject to Cabinet's approval.

10. Equality implications

An Equality Impact Assessment has been carried out on the implications of this Cabinet report. This assessment concluded that there will not be any negative implications for the characteristics protected by the Equality Act 2010. A key characteristic of the allocation of this element of NHB in 2011/12 is that it is proposed to be spread as far as possible evenly across the Borough's six partnership areas, so as to achieve a maximum benefit for the residents of the Borough. The proposed use of NHB will help to deliver housing developments that have already been approved, including schemes to provide housing for those in need.

11. Consultation

- 11.1 Prior consultation has been undertaken with officers in service areas across the Regeneration Directorate and with officers in legal services.
- 11.2 Once the Council is in a position to seek applications for investment from NHB, the availability of the fund will be advertised widely. This will ensure that a range of potential private sector partners are consulted on the proposals.

Background papers

New Homes Bonus – Report to Cabinet, July 2011

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Tim Johnson
Executive Director Regeneration
14 September 2011



Councillor Andrew
Regeneration Portfolio holder
14 September 2011

APPENDIX 1 – Scoring Criteria

Eligibility criteria:

Bidders may be developers who have part completed sites that have stalled, or sites where development has yet to commence and this has been delayed by the economic downturn. The applicant must have:

- freehold interest or long lease (typically 125 year lease) on the development site
- Full Planning Consent for the scheme
- Confirmed in writing that the bid is State Aid compliant, either through the de minimus block exemption or other block exemption such as noted in 7.2

Please note that the criteria below are bespoke to Walsall but have taken account of the HCA's Kickstart criteria.

Each criterion will be scored out of 3, and subsequently weighted as detailed below, with 5 being the greatest weighting.

Criterion	Description	Guidance	Weight (1 to 5)	Maximum score (ie Score x weight)
Deliverability (min 36%)				
1	Start on site date	Priority is given to an earlier start date as this gives decreased risk on deliverability, and speediest economic impact for local jobs / apprenticeships	5	15
2	Completion date	Preference will be given to earliest completion dates, as decreased risk on deliverability and delivers greatest additional NHB payments impact	5	15
3	Feasibility	Sufficiently detailed breakdown of costs and values, and project timetable to enable appraiser / specialist advice to determine risk of deliverability	5	15

Value for Money (min 33%)				
4	Loan or grant required	Preference will be given to loan proposals, and then to those offering earlier repayment, thus reducing risk of non payment and enabling early recycling of capital. Finally level of proposed interest rate will be considered.	3	9
5	Total new homes	Priority will be given to those schemes delivering the largest number of new homes	3	9
6	NHB per unit	Schemes which have the lowest rate of NHB required per home developed will be prioritised	2	6
7	NHB as % of overall investment	Priority will be given to schemes that deliver greater private sector leverage, for relatively lower amount of NHB e.g greater priority to Scheme 1 which has TSC £2m where NHB is £100k (5%), compared with Scheme 2 where TSC is £1m and NHB £100k (10%)	2	6
8	% affordable homes	Schemes that deliver more affordable housing will be favoured, and consideration will be given to how closely these meet the tenure requirements within Walsall's Affordable Housing Supplementary Planning Document. Apart from the Strategic benefits, this will also result in greater future NHB payments	2	6
9	S106 contributions levered in	Consideration will be given to the level of S106 contributions the Council will receive through kickstarting the housing development	2	6
Economic (min 19%)				
10	Think Walsall principles	The housing provider must demonstrate how they will adhere to the Think Walsall principles	2	6
11	Number local jobs created / retained (and for how long)	Priority will be given to proposals that maximise the number of local jobs created / retained in both the project and supply chain. Also the likely duration ie whether the developer can offer commitment that local jobs will be retained for other Schemes they intend to develop elsewhere	3	9

12	Number local apprentices / trainees	Priority will be given to proposals that maximise the number of local apprenticeships / trainees	3	9
Strategic (max12%)				
13	Local Investment Plan (LIP) spatial priority site	Priority will be given to strategic sites / areas named in Walsall's LIP and/or Strategic Regeneration Framework (SRF) Masterplans already approved by Cabinet. . Please note this criterion will only be used to determine priority within each Partnership Area (PA) where the PA contains sites that are defined as having strategic significance within the LIP or SRF. This criterion will not be used as part of the scoring matrix in Partnership Areas that do not feature LIP / SRF priorities.	1	3
14	Housing Strategy priorities	Within each Partnership Area, priority will be given to schemes that are bringing forward family homes and bungalows. Smaller homes and apartments will only be considered where market intelligence demonstrates there is a need / appropriate ie district centres, or areas which are already predominantly family housing	2	6
15	Environmental sustainability	Schemes that offer the highest Code for Sustainable Homes (CSH) rating will be given priority.	2	6
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