

Cabinet – 27 July 2011

New Homes Bonus

Portfolio: Councillor Adrian Andrew, Deputy Leader, Regeneration

Service: Regeneration – Planning and Building Control

Wards: All

Key decision: Yes

Forward plan: Yes

1. Summary of Report

This report advises of the amount of New Homes Bonus (NHB) that the Government has confirmed will be received by the Council in the first year, it seeks support for measures to ensure NHB payments are maximised in future years and recommends a series of investment principles to guide the future use of NHB received, that would help to deliver the objectives of the Corporate Plan in stimulating economic growth; physical regeneration activity and in delivering new homes in the Borough.

2. Recommendations

That Cabinet

- i) Note the award of the Council's first New Homes Bonus (NHB) award and the comparative amount awarded to other Black Country Councils.
- ii) Agree the investment principles to guide the future use of NHB as set out in section 3.12.
- iii) Request that a subsequent report be submitted to Cabinet outlining specific proposals for investment of NHB in line with the core NHB investment principles.
- iv) Agree to fund from NHB received to date the production of the development plan documents required to facilitate future development as set out in paragraph 4.1.1 at a cost not exceeding £135,000.

3. Background Information

New Homes Bonus

- 3.1 NHB has been introduced as part of the Government's planning reforms. It is intended to provide an incentive to local authorities to encourage the delivery of new housing development. Unlike the previous Housing and Planning Delivery Grant (HPDG), which was based on the number of dwellings that had planning permission, NHB is to be based on the number of new homes completed in the authority's area. 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 "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. For comparison sake other Black Country authorities have been awarded payments for the first year as follows:
- Dudley £545,784
 - Sandwell £634,536
 - Wolverhampton £443,760

New homes completed over the 12 months between October 2010 and October 2011 will attract a similar payment for the following 6 years which will be added to the above sums. Payments in future years are expected to be made at the same time as the local government financial settlement.

- 3.3 Eventually NHB is to be funded from formula grant settlement. However, additional central Government money from the abolition of Housing Planning Delivery Grant will fund the full cost in year 1 and a falling proportion across years 2-4. CLG has set aside nearly £200m to fund the scheme in 2011-12. For the following three years of the spending review (2012-13 to 2014-15) £250m per annum has been set aside and funding beyond these levels will come from formula grant.
- 3.4 NHB is based on data shown on the Council Tax Base Form. This is an annual return provided by officers in the Local Taxation Unit that compares the numbers of dwellings that are eligible for council tax over successive years. There have been significant differences between the numbers of new dwellings shown in the Council Tax Base and the numbers of new build completions recorded by Planning and Building Control officers. This appears to be the result of under-recording of completions in recent years. Planning officers are working with local taxation officers to improve the accuracy of its completions data. This should increase the amount of both NHB and council tax received.
- 3.5 It should be noted that the provisional figure for dwelling completions in the year 2010-11 recorded by Planning and Building Control officers exceeds that for the previous year that has been used to calculate the payment for year 1 of NHB. If confirmed, this means that the size of NHB in year 2 (and the

subsequent 5 years) would exceed that in year 1, estimated to be £1,069 m based on 826 completions as against 704 completions in 2009/10.

- 3.6 An element of NHB is payment for affordable homes, and gypsy and traveller pitches. The Black Country Core Strategy (BCCS) states that 39 additional gypsy and traveller pitches will be provided in the borough by 2017. Provision of this number of pitches by the local authority would attract an additional NHB payment over 6 years of £306,000. This means that provision could in part be self-funding, as described in 4.1.6.

Future use of New Homes Bonus

- 3.7 NHB is not ring-fenced. The Government stated during the consultation period that it expects local councillors to work closely with their communities – and in particular the neighbourhoods most affected by growth – to understand their priorities for investment and to communicate how the money will be spent and the benefits it will bring. This may relate specifically to new development or more widely to the local community. For example, they may wish to offer council tax discounts to local residents, support frontline services or improve local facilities. This would enable local councillors to lead “*a more mature debate*” with local people about the benefits of growth, not just the costs. The consultation also suggested that pooling some NHB at the level of the LEP could have benefits.
- 3.8 Because only the payments that are made in the early years of the Bonus are to be from additional funding, it will be prudent for the Council to utilise this funding for enablement that achieves the Council's goals, rather than leaving the council with a long term asset it cannot afford to maintain or a long term service it cannot finance.
- 3.9 The Government stated during the consultation that NHB could be used to pay for infrastructure that might otherwise be funded through Section 106 contributions, or the Community Infrastructure Levy (CIL) that is intended to replace in part the use of Section 106. This would help improve the viability of schemes and assist in bringing developments forward. There would be implications for current Council policies that require contributions to be made by developers which would be phased out or replaced. Cabinet on 8th June 2011 agreed to the preparation of a Site Allocation Document, Town Centre Area Action Plan, Infrastructure Plan and CIL Charging Schedule.
- 3.10 The Infrastructure Plan will examine how funding is to be provided for the various items of infrastructure that will be needed to serve new development. A revision of certain Supplementary Planning Documents is also being considered to take account of changes in legislation and government advice. These changes include the introduction of CIL. Officers will report to a future Cabinet meeting on any proposals to review the Council's Supplementary Planning Documents.
- 3.11 The likely levels of NHB would help increase housing growth – not just about funding support there are other factors such as market exposure - and have the potential to make a greater impact if used in conjunction with other funding sources such as CIL. This could therefore provide access to finance for

developments, reduce the burden on developers and increase the viability of housing and other developments. This could increase the quantity of new housing that is built and hence increase the amount of NHB received by the Council in future years (although as noted above, it is expected that NHB payments after the initial years will be matched by corresponding reductions in formula grant). The sums will not be known until the infrastructure plan, charging schedule and associated work on viability are completed.

New Home Bonus Investment Principles

- 3.12 The recommended option for the use of NHB is to focus it on activity to stimulate economic growth and new housing provision . Specifically NHB should focus on the following 6 key investment areas:
- I. **Supporting strategic acquisitions and development funding** – further investing in acquiring strategic land assets through which the Council can directly stimulate future development and developing flexible funding models to assist in improving the viability of future development schemes
 - II. **Developing and maintaining a policy base to support future development** – the production of appropriate Development plan documents.
 - III. **Supporting Economic Regeneration** – supporting activity required to stimulate economic recovery and growth.
 - IV. **Stimulating future new homes provision** – continuing the Council's previous successful strategy under Regional Housing Pot which has now ceased to support the delivery of schemes to deliver significant number of new homes in the Borough in response to identified housing need and market conditions.
 - V. **Bringing empty homes back into use** – targeted action to return homes that have laid vacant into productive use.
 - VI. **Providing for Gypsies and Travellers** – providing appropriate levels of Accommodation to enable current and existing demands to be appropriately managed.

The financial implication of these investment themes is outlined in section 4.

4. Resource Considerations

Financial:

- 4.1 The NHB offers a new source of funding that is not constrained by rules or regulation in terms of how it is spent. It therefore represents a tremendous opportunity for the Council to use this creatively in order to stimulate economic, housing and other development opportunities thereby creating employment growth or further financial reward to the Council where additional housing is proposed by way of additional bonus, particularly in the first three years when most of the money is effectively new and will not be taken from formula grant up to 2014/15. The suggested principle uses of NHB are:

Developing and maintaining a policy base to support future Development

- 4.1.1 NHB will provide an additional financial resource that can be used to encourage development in accordance with the BCCS. The production of

Development Plan Documents (DPD's) in the form of a Site Allocation Document and Town Centre Area Action Plan can be produced using in-house resources except for the commissioning of some specialist supporting evidence and the holding of Examinations in Public (EIP). This is likely to be over two-and-a-half years with a total budget of approximately £90,000 - £135,000. Therefore on the basis of reinvest to save it is proposed that this is funded from NHB with a contribution of £45,000 being allocated each year for the next three years bonus.

Supporting strategic site Acquisitions and Development Funding

- 4.1.2 The council has used allocated capital funding to acquire strategic sites to enable regeneration initiatives to be progressed in key areas of the borough. It is considered that NHB offers the council with a means to continue with this investment strategy particularly in coordination with the production of the council's DPD's as this fund could be vital to identifying and bringing forward new development sites and ensuring their delivery. The opportunity therefore exists to establish a new Investment Fund that consolidates funding that is or might become available from NHB, CIL, European Regional Development Fund (ERDF), local authority land assets, and the business rate tariff from the Enterprise Zone, either as a stand-alone vehicle that the council manages in isolation or as the council's contribution by way of match to a much more sophisticated vehicle that levers in a similar level of private sector funding. The latter approach could create an 'Evergreen' type structure based on Joint European Support for Sustainable Investment in City Areas (JESSICA) principles that allows the Fund to revolve and recycle returns.
- 4.1.3 The fund management would decide on which projects to support based on shared priorities but could include housing schemes within a drive to sweat the fund to its maximum in order to deliver real economic benefits. The Investment Fund would enable the right kind of market expertise to be an integral element of the vehicle and may also be used to stimulate the private sector and RSLs bringing forward sites acting as a loan service (like RHP) with suitable interest charges to support the delivery of such developments.

Stimulating future new homes provision

- 4.1.4 This could be used to build on the Council's recent successful record in stimulating housing growth. Whilst match funding has been required in some cases, there is clear evidence that use of Growth Point and RHP has contributed to accelerating key sites such as Brownhills High Street, Heathfield Lane West (HLW) and Waterfront South. This has not all been grant funded. In the case of HLW a recyclable loan of £600K has been provided with the objective of remediating the land to accelerate development and repayment of the loan within 3 years which can then be recycled. A market interest rate is payable on the loan, which provides additional income for the council until the loan is repaid, and could be an excellent pilot for this sort of 'enabling' activity in future. Feedback from some developers has suggested that the provision of the loan is essential in this climate to stimulate housing growth as it is difficult to obtain bank funding and that this initial cash flow would be enough to commence housing delivery which would not otherwise happen currently. If this was to be actioned this would mean that the

Council would receive recyclable capital around about the time when the new NHB money runs out. Feedback from housing associations is that a small amount of NHB as grant may help unlock some of their sites, bringing much needed affordable housing, and housing association investment, into the Borough.

Bringing Empty Homes back in use

- 4.1.5 There are significant value for money regeneration benefits from returning long term empty houses to productive use over and above those of providing new build affordable housing. The properties following improvement can be sold on the open market and the capital funds received re-invested to assist with future purchases and improvement. The funds will also be targeted to fund works in default where necessary in securing empty private sector homes – particularly where they are required to support wider development or where vacant properties are problematic to local communities. This approach has been undertaken in Walsall previously, for example an allocation of up to £0.55M of RHP has previously been approved by Cabinet in 2010/11 to fund the negotiated purchase and necessary improvement of a number of long term empty dwellings and it is considered that this strategy could be continued with the use of NHB.
- 4.1.6 Bringing long term empty dwellings back into use will also increase the size of future NHB payments. The corollary of this is that an increase in the numbers of long term dwellings in the Borough will directly reduce the levels of NHB received in the future.

Providing for Gypsies and Travellers

- 4.1.7 A proportion of NHB could be used to support Gypsy & Travellers provision but any new provision will have associated revenue / management costs. However, if all the money generated by NHB (£306K) based on providing all 39 pitches as is the Council's requirement in the BCCS this would be insufficient and only equivalent of only £7.8K contribution per pitch. Roughly 10 times that amount is required to construct a pitch (assuming a normal site without any abnormal costs). Any build would also be in advance of the full 6 year NHB payments being available and therefore this would require 'up front' Council capital repayable from NHB in later years. As NHB will eventually cease to be 'new money' so effectively formula grant would be providing this contribution in later years.

4.2 Legal:

- 4.2.1 In the event that use of NHB is approved as recommended in this report, the development plan documents that will secure the delivery of the BCCS, which was adopted by the Council in February 2011, will need to be produced in accordance with the various statutory requirements. All grant / loans would be secured through legally binding agreements, and the council has recent experience in developing robust agreements through use of RHP funds.

4.3 Staffing:

- 4.3.1 The proposed spending proposals and detailed development documents would be produced by existing officers in Regeneration working with developers and infrastructure providers.

5. Citizen impact

The allocation of suitable sites would help to deliver new homes and employment opportunities for the benefit of current and future residents of the borough.

6. Community Safety

None arising directly from the report.

7. Environmental impact

Use of NHB to allocate sites and stimulate economic growth will help to unlock and re-use vacant brownfield sites in accordance with the BCCS. The preparation of development plans, Investment Funds and other suggested use of the NHB would follow statutory procedures and will ensure that environmental and sustainability issues are properly addressed.

8. Performance and risk management issues

8.1 Risk:

- 8.1.1 The BCCS provides a robust policy framework and spatial strategy for Walsall and the wider Black Country but only gives a broad indication of the location of new development within the Borough, and does not change the land use designation of individual sites. This can only be done through other, more detailed “*daughter*” development plan documents (DPDs). There may be significant risks to the future planning of the area if the Council does not develop the strategy by preparing DPDs. For example, the Council may not be able to successfully defend appeals in situations where the proposed land use of a particular site or area is disputed. The BCCS Inspectors’ Report assumes that other DPDs will be prepared by each authority to refine the BCCS proposals for each area in more detail. It also assumes that developer contribution schemes such as CIL will be developed through other DPDs.
- 8.1.2 Allocation of sites and identification of detailed infrastructure requirements will provide greater certainty about planning policy in the Borough to encourage investment at a time of economic uncertainty and changes to the planning regime that would otherwise result in a void. It will help the Council to defend adverse decisions at planning appeals.

8.1.3 Regeneration officers including officers in the development management process are already being proactive in helping to provide viable opportunities for housing and other developments. Failure to invest further in developments to provide new site opportunities and resolving matters such as improved infrastructure to improve the viability and unlock existing sites would reduce future housing provision and reduce future NHB.

8.2 Performance management:

8.2.1 It is not always easy to directly correlate all developments that have come forward solely for reasons of known stimulus provided. However, it is no coincidence that Walsall's relatively high housing bonus is a direct result of the work of officers in the Regeneration Directorate through such things as:

- Strategic positioning with HCA to maximise grant and Kickstart investment
- Close working with major Housing Association partners, including whg, Accord Group, Bromford and Housing 21.
- Offering a tailored housing enabling service to developers to kickstart key strategic residential sites, making best use of RHP and Growth Point funding
- Its pro-active planning service which has sought to work with developers to overcome viability issues.

9. Equality implications

The BCCS and its "*daughter*" documents aim to secure an improved physical environment, additional homes and an increase in employment opportunities for all residents. The preparation of the documents includes a consultation process that aims to ensure that the needs and aspirations of all sections of the community are taken into account. The draft Core Strategy was subject to an Equality Impact Assessment at each key stage which was undertaken jointly with the other authorities as part of the Sustainability Appraisal (SA).

10. Consultation

- 1 The Development Plan Documents will be prepared in accordance with the approach to community involvement as set out in legislation and the Council's adopted Statement of Community Involvement.

Background Papers

Black Country Core Strategy Adoption Version

Inspectors Report into Examination in Public (October 2010)

New Homes Bonus – Department of Communities and Local Government

- Consultation (November 2010)
- Final Scheme Design (February 2011)
- Confirmed Payment 2011-12

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A handwritten signature in blue ink, appearing to read 'Tim Johnson', followed by a vertical line.

Tim Johnson
Executive Director
Regeneration

19 July 2011

A handwritten signature in blue ink, appearing to read 'Adrian Andrew', followed by a vertical line.

Councillor Adrian Andrew
Deputy Leader
Portfolio Holder: Regeneration

19 July 2011