# CCN Submission to DCLG Consultation

COUNTY COUNCILS NETWORK

***New Homes Bonus: Sharpening the Incentive***

**March 2016**

**Introduction**

1. The County Councils Network (CCN) welcomes the opportunity to submit evidence to the Department for Communities and Local Government (DCLG) consultation on *New Homes Bonus: Sharpening the Incentive*.

2. CCN represents 37 English local authorities that serve counties. CCN's membership includes both county council and county unitary authorities who serve over 25m people (47% of the population). CCN is a member-led organisation which works on an inclusive and cross party basis.

3. Whilst this response has cross-party sign-off from across our membership, we would also direct the Department towards individual responses from our member authorities for detailed comments on local circumstances.

**County Context**

4. CCN has long called for reform to the New Home Bonus (NHB) policy, questioning the effectiveness of NHB in delivering its stated policy aim of creating an '*effective fiscal incentive to encourage local authorities to facilitate housing growth*'.[1] Therefore the opportunity to contribute to this consultation is welcomed. However, we are disappointed that this consultation does not include a review of the 80:20 split between districts and counties.

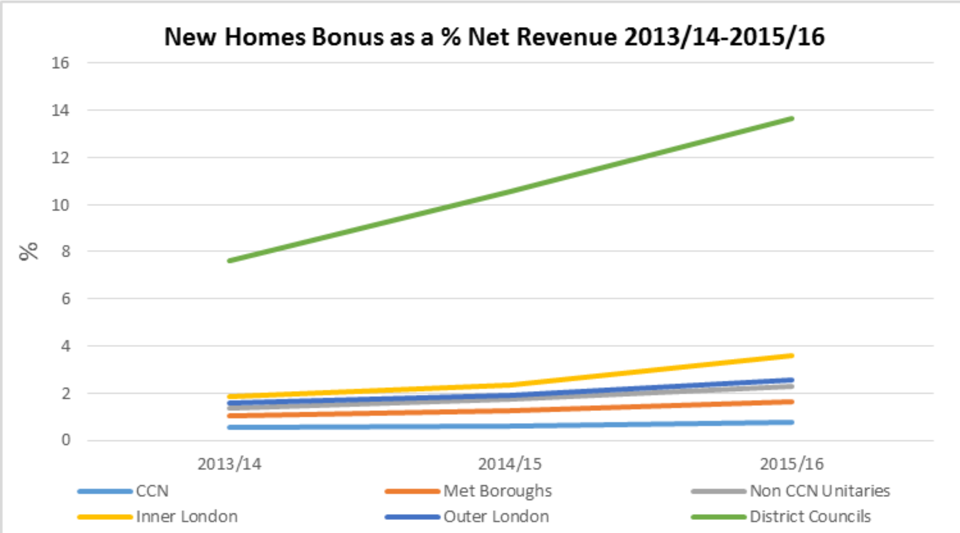
5. The 80:20 spilt of NHB in two-tier areas will have negative net financial impact on county councils over the coming years if Government does not review this element of the policy. DCLG's evaluation of NHB found that by 2014/15 shire counties without fire responsibilities were £45m worse off, with counties with fire responsibilities £25m worse off.[2] In comparison shire districts were the highest net beneficiaries with net positive financial benefits of £250m for the same period.

6. This level of disparity is inexplicable given that county councils are responsible for the delivery of infrastructure and transport that are vital to facilitate housing construction and a key factor in ensuring communities accept housing development. In addition to this county councils will experience an increased demand in statutory services such as school places and social services as a result of new homes being built.

[1] New Homes Bonus: Final Scheme Design, Department for Communities and Local Government, February 2011
[2] Evaluation of New Homes Bonus, Department for Communities and Local Government, December 2014

7. There is further evidence that the NHB has not delivered on its policy objectives. DCLG's evaluation of NHB found that receipts from the incentive have not been used to deliver housing, infrastructure or growth related activities, all of which are imperative to facilitate housing growth. Instead the evaluation showed that NHB receipts had been allocated for general council services (60%), keeping council tax low (6.5%) and more worryingly only 10% of receipts were invested in infrastructure for new housing. The evaluation also found that there was very little evidence that NHB receipts authorities were being spent in line with '*local community priorities'* as was intended by the policy.

8. The stark reality is that NHB is becoming an increasing proportion of some council revenue budgets. In 2013/14 the Bonus provided just 7.6% of an average District's net revenue budget, in 2015/16 this almost doubled to 13.7% (See graph below).[3] By comparison, NHB contributed only 0.76% of the average county's budget, the lowest of any local authority type.




9. CCN welcomed the announcement in the 2015 Spending Review that funding from the New Homes Bonus (NHB) will be used to fund adult social care. Government has rightly recognised the need to make savings of £800m by reducing the number of years NHB is paid from 6 down to 4. This move will provide part of the £1.5bn that will be allocated to upper-tier authorities facing demand-led pressures in adult social care through the expanded Better Care Fund (BCF).

10. Given the demand and cost pressures facing county areas, including the implementation national living wage, we believe a further reduction in the number of years should be implemented. These further savings would allow further resources to be distributed to those upper-tier authorities facing the most acute levels of demand for adult social care services, such as counties.

11. Independent research undertaken by LG Futures, on behalf of CCN, found that the share of NHB received by local authorities directly impacts upon how the reductions to funding for adult social care have been offset.[4] The impact of this is most stark in two-tier areas where county councils (-23.6%) witnessed a higher reduction in estimated notional

[3] Graph Source: LG Inform, Local Government Association
[4] Social Care and Health: Funding and Cost Pressure Analysis, LG Futures, January 2016

funding than the national average (-21%) and all other local authority types from 2013/14- 2015/16 (See graph below). This is a direct consequence of county councils receiving only 20% of NHB in their local areas.

**Estimated Percentage Change in Notional and Cash Funding for Older Adult Social Care 2013/14-2015/16**

| Comparator Groups | Change in Notional Funding | Change in Cash Funding |
|---|---|---|
| **County Councils Network (CCN)** | -22.9% | -20.1% |
| CCN County Council | -23.6% | -21.9% |
| CCN Unitary | -20.8% | -15.2% |
| Metropolitan Boroughs | -22.4% | -20.9% |
| Unitaries (Excl CCN Members) | -21.3% | -17.5% |
| London | -20.9% | -17.6% |
| England | -21.9% | -19.0% |

12. Alongside the proposed reduction in the number of years NHB is paid to local authorities, CCN welcomes the commitment by Government in the Provisional Local Government Finance Settlement consultation to review the distributional formula for the expanded Better Care Fund.[5] At present, despite having the fastest growing elderly population, a number of CCN member councils receive little to no financial benefit from the expanded BCF due to, in part, the distribution being based upon the Social Care Relative Needs Formula (SCRNF) which was frozen in 2013/14 and as such does remunerate for demographic growth. As a result, per capita funding levels for counties have fallen in relative terms when compared to other local authority types.

13. With Government now committed to NHB beyond this Parliament, short-term changes in this consultation must be accompanied by longer term reform. The recent commitment by Government to undertake a needs-based review of local government funding, coupled with the transition to full business rate retention, provides a timely opportunity to consider how best to distribute funding in the future. CCN proposed that the need for NHB must be revaluated within the context of full Business Rate retention, and if it is to be kept then the 80:20 split in favour is district councils is altered to fund vital infrastructure and services.

14. Importantly it provides an opportunity to assess how the total quantum of funding, including the NHB, can be better utilised in order for councils to promote growth, meet service need and protect the most vulnerable.

15. We have provided detailed comments to the consultation questions below.

[5] The Provisional Local Government Finance Settlement 2016/17: Consultation, DCLG, December 2015

**Question 1: What are your views on moving from 6 years of payments under the Bonus to 4 years, with an interim period for 5 year payments?**

16. CCN supports the Government's proposals to reduce the number of years for which the bonus is paid from 6 to 4. Releasing funding for adult social care is imperative at a time when CCN member councils are faced with the most acute pressures in this area when compared to other local authority types. This increasing demand, coupled with increasing costs, a significant reduction in Government funding and the fastest growing elderly population means that public money must be used to support those vulnerable people faced with the greatest levels of need.

**Question 2: Should the number of years of payments under the Bonus be reduced further to 3 or 2 years?**

17. CCN support a further reduction in the number of years Bonus payments are made, if these further savings are reallocated for adult social care.

18. As stated previously in this response, CCN support the announcement by Government to utilise the £800m saving from reducing the number of years NHB is allocated from 6 to 4. A further reduction in the number of years payments are made for would deliver additional savings. This funding should then be distributed to those upper-tier authorities, such as counties, who are experiencing the most acute demand and cost pressures for adult social care services.

19. It is imperative that the distributional formulae for the expanded Better Care Fund are consulted upon to ensure that any 'savings' realised from NHB are directed to those authorities experiencing the most acute demand-led pressures in adult social care.

**Question 3: Should the Government continue to use this approach? If not, what alternatives would work better?**

20. Yes. However, CCN's preferred method would be for the funding top-sliced for the purposes of NHB to be left within the overarching settlement and allocated according to a revised needs-based formula. Failing that, as stated above, the overall funding for NHB should be reduced further and this funding redistributed through the Better Care Fund using a revised needs-based formula that recognises those authorities facing the most acute levels of demand for adult social care services.

**Question 4: Do you agree that local authorities should lose their Bonus allocations in the years during which their Local Plan has not been submitted? If not, what alternative arrangement should be in place?**

21. No. Such an approach would hold back much-needed funding from local areas at a time when local authorities have been subject to significant reductions in public funding.

22. In two-tier areas such an approach would wrongly penalise county councils, who while they are statutory consultees, are not the responsible authority for submitting local plans. Regardless of the status of the Local Plan, county councils have ongoing obligations and financial commitments to provide infrastructure and services. Therefore,

county councils should receive their proportion of NHB regardless of whether a Local Plan is in place.

**Question 5: Is there merit in a mechanism for abatement which reflects the date of the adopted plan?**

23. No. As stated in response to question 4, holding back funding from local areas would further punish local authorities that are already faced with challenging financial settlements.

24. Local people and democratically elected officials, such as councillors, scrutiny functions and MPs, should ultimately hold their local authority to account if they feel that the non-adoption of a Local Plan has a negative impact on housing development, infrastructure provision and economic growth.

**Question 6: Do you agree to this mechanism for reflecting homes only allowed on appeal in Bonus payments?**

25. Such an approach would add further complexity to the provision of New Homes Bonus. Government should seek to increase transparency and simplify the way in which the NHB is administered, not build in additional complexity and uncertainty that may hinder local authority financial planning.

26. In two-tier areas, county councils continue to have ongoing infrastructure responsibilities to support the delivery of new homes regardless of the process by which planning approval is granted.

**Question 7: Do you agree that New Homes Bonus payments should be reduced by 50% or 100% where homes are allowed on appeal? If not, what other adjustment would you propose, and why?**

27. No. As indicated in response to Question 6, CCN does not support withholding Bonus payments from local authorities where new homes are only allowed on appeal.

**Question 8: Do you agree that reductions should be based on the national average Band D council tax? If this were to change (see question 2) should the new model also be adopted for this purpose?**

28. No. CCN do not support a penalty where homes are only granted permission following an appeal.

**Question 9: Do you agree that setting a national baseline offers the best incentive effect for the Bonus?**

29. As stated previously, CCN would support any changes that reduce the total quantum of funding distributed through the budget, providing that this funding is then redistributed through a revised needs-based formula to provide funding to those local authorities facing the most acute demand in adult social care services.

30. Therefore, setting a national baseline would remove deadweight payments from the Bonus and as such free up additional 'savings' to be redistributed for the purposes of adult social care.

**Question 10: Do you agree that the right level for the baseline is 0.25%?**

31. Please see response to Question 9.

**Question 11: Do you agree that adjustments to the baseline should be used to reflect significant and unexpected housing growth? If not, what other mechanism could be used to ensure that the costs of the Bonus stay within the funding envelope and ensure that we have the necessary resources for adult social care?**

32. An alteration to the baseline would appear to penalise the local authorities who have facilitated extensive housing growth in their local areas in line with Government policy. If the danger to exceed the overall pot is felt to be real, a slight scaling back of all grant payments would appear to be fairer.

**Question 12: Do you agree that the same adjustments as elsewhere should apply in areas covered by National Parks, the Broads Authority and development corporations?**

33. Please see response to Question 4. CCN does not support NHB payments being held back in any circumstance.

**Question 13: Do you agree that county councils should not be exempted from adjustments to the Bonus payments?**

34. The existing 80:20 distributional split in favour of district councils already means that county councils are penalised when compared to what their allocation might have been had the NHB top-slice not been made and the funding distributed according to need. In addition to this, the Bonus in its current form does not adequately reflect the costs of infrastructure and service provision required to facilitate housing development.

**Questions 14: What are your views on whether there is merit in considering protection for those who may face an adverse impact from these proposals?**

35. Any reduction to public funding must be delivered over a period of time to ensure that local authorities are not placed under severe financial pressure at a time that funding for the public sector has been significantly reduced.

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