



Hinckley & Bosworth
Borough Council

A Borough to be proud of

COUNCIL – 23 SEPTEMBER 2014

NEW HOMES BONUS – PARISH ALLOCATION

REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)

WARDS AFFECTED: ALL

1. **PURPOSE OF REPORT**

- 1.1 To provide Council with details of the levels of funding provided to parish councils (and the Special Expense Area) by Hinckley and Bosworth Borough Council and to seek approval of the removal of New Homes Bonus allocation to these organisations with effect from 2015/16.

2. **RECOMMENDATION**

2.1 That Council:

- note the significant level of discretionary support provided to parish councils and the Special Expense Area to date.
- recall the requirement contained in the Medium Term Financial Strategy to consider removal of the New Homes Bonus in order to ensure minimum general fund balance levels from 2015/2016 onwards.
- approve ending of all payments of New Homes Bonus to parish Councils and the Special Expense Area from 2015/2016.
- In order to manage the financial impact on parishes, approve the ongoing provision of Council Tax Support Funding to parish councils.

3. **BACKGROUND TO THE REPORT**

Context

- 3.1 As outlined in the Medium Term Financial Strategy (MTFS) 2013/2014 – 2016/2017 this Council, will face increased financial pressures from 2015/2016 onwards. The provisional Local Government Finance Settlement for 2015/2016 indicates that this Council will face a further 15.94% drop in core funding, bringing the total reduction since CSR10 to over 30%.
- 3.2 In order to address this position, the MTFS details three scenarios; “best”, “worst” and “forecast”. In the past the Council has strived to, and has been successful in, delivering to the “forecast” position. However the deficit position created by this scenario in this Strategy creates a General Fund deficit and is therefore not sustainable. That said “best case” scenario is achievable through commitment to a number of targets and decisions, including consideration of the future allocation of New Homes Bonus.
- 3.3 Following approval of the MTFS, a number of financial decisions have been made both internally and externally which will impact the achievement of the “best case” scenario. These include:
- An indication from Executive that removal of New Homes Bonus should be phased over two years and that the Parish and Community

Initiative Fund balance should be increased to compensate for an element of this. Executive have also indicated that they do not want to remove provision of the Local Council Tax Support grant to parish councils

- Approval of a moveable floor in the new Leisure Centre. Whilst this is a capital scheme, this decision is forecast to “cost” the General Fund £132,095 in 2015/2016
- In addition, there are strong indications that there will be budget decisions by Leicestershire County Council which will have further significant impacts on District Councils. For this Council the impact is estimated at £320,000 for 2015/16 and a further £500,000 in 2016/17. This will reduce still further our ability to provide funding for ongoing core activities and require changes to the MTFS forecasts.

3.4 The impact of these changes on the Medium Term Financial Strategy is detailed below. In essence, if Council do not approve the recommendation to remove funding altogether to parishes in 2015/2016, the savings target for 2015/2016 will increase to £463,862. This is deemed to be unmanageable without a combination of introducing further charges for services, cuts in service provision, redundancies (as a longer term solution) and/or an increase in council tax.

	2015/2016
	£
Current MTFS	
Savings target included in MTFS	200,000
Additional savings target to move to best case	76,900
Revisions to MTFS	
Additional income now forecast (planning and Business Rates)	-150,000
Reduction in New Homes Bonus to Parishes	300,000
Increase in PCIF	50,000
Retention of LCTS grant to Parishes	143,000
Assumed reduction in LCC cuts	-154,000
Reductions in restructure costs	-134,133
Implications of changes to Leisure Contract	
Movement in gross Management Fee	51,375
Maintenance charge	25,000
Cost of borrowing	55,720
Revised savings target	463,862

New Homes Bonus Allocation

3.5 New Homes Bonus (NHB) was introduced in February 2011 and is designed to encourage housing growth by providing a financial incentive for Councils and local people to accept new housing. For each additional new home built local authorities receive six years of grant based on the council tax for that property. This will increase in amount each year as more new housing comes on stream. The scheme applies to new housing and empty properties brought back into use. In addition a £350 payment is granted per year (based on

October figures) for each affordable home, as well as traveller sites in public ownership. The grant is made to local authorities on a non-ring fenced basis with 80% to a district authority and 20% to a county council in two-tier areas.

3.6 In addition, this Council has determined a voluntary contribution to parish councils and the Hinckley Special Expense Area where the development takes place, of 25% from its 80% allocation on the following basis:

- Only those parishes where new homes development take place receive NHB
- The mechanism for calculating NHB is the movement in council tax base initiated in the previous 12 months as indicated by a report (CTB) run in October each year
- Funds are allocated to the relevant parish council/Special Expense Area and paid in six monthly instalments (at the same time as precepts)
- Funds are not ring fenced and can be used to fund capital or revenue requirements
- Funds can be rolled over year on year, though an annual return should be completed each year to indicate to the Borough Council how the funds have been spend/earmarked

3.7 **It should be noted that this approach is unique in Leicestershire, Hinckley & Bosworth Borough Council continue to be the only district in Leicestershire which passports New Homes Bonus to Parishes in this way.**

3.8 To date this Council has been awarded over £3.5million of funding through New Homes Bonus of which 25% (approximately £865,000) has been passported to parish councils – including the Special Expenses Area of Hinckley. The total allocation by organisation is detailed in Appendix 1

Financial Year	Transfer to Parish Councils/SEA £
2011/12	87,440
2012/13	177,823
2013/14	255,815
2014/15	343,716
Total	864,794

3.9 The award of New Homes Bonus is driven by the housing market and is therefore difficult to predict with any significant degree of accuracy. As outlined in the MTFs therefore, three scenarios have been forecast based on the current planned housing trajectory for the remaining years of the MTFs. These contain the income streams that may be received as a result of the Sustainable Urban Extensions (SUE) at Barwell and Earl Shilton. The second table shows what the allocation to parishes/SEA would be in these cases:

Total (80%) NHB - Before Parish Allocation			
	Worst Case £	Forecast £	Best Case £
2014/15	-	1,401,891	-
2015/16	1,656,945	1,784,472	1,911,999
2016/17	2,054,795	2,381,248	2,707,700

Parish and Special Expenses Allocations			
	Worst Case £	Forecast £	Best Case £
2015/16	414,236	446,118	478,000
2016/17	513,699	595,312	676,925

- 3.10 Appendix 3 provides a summary of NHB spend by parish/SEA for the period 2011/12 – 2013/14 (please note this does not include allocated funds for 2014/15). Whilst a majority of parishes have spent these funds, albeit on small remedial projects i.e. replacement/repairs to equipment and grounds maintenance/improvements, a number are currently carrying forward substantial amounts of funds. What is clear from Appendix 3 is that if the practice to allocate 25% of the Council's share of NHB to Parishes continues without any correction then some of the larger Parishes will become richer and have disproportionately more funds than the smaller Parishes who do not have availability of land to develop.

Other Parish Funding

- 3.11 In addition to New Homes Bonus, a number of other streams of funding are available to parish councils. These are outlined below.
- 3.12 **Parish and Community Initiative Fund** :- £100,000 additional funding is provided to the parishes each year through the Parish and Community initiative fund (PCIF). In the 10 years this fund has been running 209 grants have been offered totalling £843,998. The total value of projects funded is £5,814,287. The return on investment for this funding stream is 1:7 and therefore very good value for money for the residents of the Borough. Schemes within Hinckley are not eligible to apply to this scheme, though the Special Expense Area has approved the set up of a similar fund from 2014/2015 to the value of £20,000 per annum. **The allocation of this funding from the Council's budget is discretionary.** Details of this allocation are included in Appendix 2.
- 3.13 **Local Council Tax Support**:- In order to compensate for the loss of income created by the government's introduction of a Local Council Tax Support Scheme in 2014/2014, The 2013/2014 Finance Settlement included £544,764 of Council Tax Support Grant for this Council. £143,000 of this amount was passed to parish councils to reduce the impact on their council tax bases. The Settlement for 2014/2015 did not separately identify any Council Tax Support Grant. However, the consultation on the document advised Authorities to assume that a similar level had been included for this purpose and therefore the same amount was passed down. **This is not a mandatory requirement and many Councils have not granted any element of the grant in either years.** Details of this allocation are included in Appendix 1

- 3.14 **Council Tax:-** In contrast to all district, county and unitary councils, there is currently no cap or referendum limit for parish councils. As a consequence, parish councils are able to increase their council tax as required to balance their precept and budget requirements. As a consequence, council tax levels for parishes in this Borough increased to a maximum of 88.75% in 2013/2014 and 9.64% in 2014/2015. Members should note that given the size of parish precepts, this increase may only equate to trifling pennies in some smaller parish areas. Details of council tax increases for both years are provided in Appendix 1. **It should be noted that decisions on Council Tax for the Special Expense Area impact the eligibility of Hinckley and Bosworth Borough Council for Council Tax Freeze Grant. Hinckley therefore is required to implement a 0% council tax increase and has not been awarded any Local Council Tax Support Grant.**
- 3.15 **Section 106 contributions:-** In many cases, parish councils/SEA are entitled to receive developer contributions arising from development for appropriate local community infrastructure schemes within parish boundaries. These amounts are billed by the Borough Council when trigger points have been met and transferred to parish councils to fund eligible schemes. Since the introduction of New Homes Bonus, parish councils/SEA have received £1,841,702 of section 106 contributions, details of which are provided in Appendix 1.

Recommendations for future funding

- 3.16 When NHB was introduced, it was agreed that the method of allocation to parish councils/SEA would be reviewed in 2015/2016 and would be dependent on the financial position of the Borough Council. As is evidenced in 3.4 it is clear that **this Council cannot viably sustain ongoing transfer of this money.** The savings resulting from removal of this support in full for each MTFS scenario are detailed below. Members should be reminded that these numbers are based on forecasts and the actual allocation for 2015/2016 will be announced by the Government in November/December 2014:

	Worst Case	Forecast	Best Case
	(£)	(£)	(£)
Forecast allocation (2015/2016)	1,656,945	1,784,472	1,911,999
Base budget saving	414,236	446,118	477,999

- 3.17 It is evident from the detail provided in this report, that whilst removal of this funding would require the need for financial prudence going forward, the previous allocation of discretionary funds has allowed parish councils to be in a highly stable financial position and one that will continue to be maintained.
- 3.18 On the basis of all of the above, it is proposed that the allocation of New Homes Bonus to parish councils and the Special Expense Area will be removed in full in 2015/2016. The Parish and Community Initiative Fund will still be made available and the same level as in previous years.

3.19 In order to ensure that parish councils remain financially solvent however, it is proposed that the Council continues to pass down the total allocation of Local Council Tax Support Grant for the foreseeable future.

3.20 The above proposed changes will assist this Council in managing its funding pressures and ensure a fairer allocation of funding across all Parishes.

4. FINANCIAL IMPLICATIONS [KP]

4.1 Contained within the body of the report

5. LEGAL IMPLICATIONS [EH]

5.1 The New Homes Bonus was introduced in 2011 as an incentive and reward for local authorities and communities to accept new houses in their area. The bonus is equal to the national average for the council tax band on each additional property built or brought back into use and is due on the property being occupied and billed for Council Tax.

5.2 The Grant is un-ringfenced grant; therefore funds can be spent on either revenue or capital, strategic projects, or placed in a local authority's reserves. There is no time limit on when the funds can be spent.

5.3 There is no duty or requirement to consult in relation to how the monies are spent however guidance shows an expectation on Councils to consult communities about how we will spend the money, especially communities where housing stock has increased

6. CORPORATE PLAN IMPLICATIONS

6.1 The current PCIF is aligned to delivering the corporate plan aims of creating a vibrant place to work and live and empowering communities. Applications to any new form of the fund would need to be evaluated to ensure funds were still being targeted to corporate plan priorities. The majority of the fund is currently allocated to community buildings and green space projects which meet the corporate plan aims.

6.2 Conversely HBBC does not have any control over how parish councils utilise their NHB receipts, and therefore these payments may not meet the Councils strategic aims.

7. CONSULTATION

7.1 Consultation on the introduction of the New Homes Bonus was undertaken during June – September 2011, as part of a review of the Parish and Community Initiative Fund. Responses relating to the NHB were as follows:

- 60% specified that the NHB should NOT be combined with the Parish and Community Initiative Fund
- 75% said that the NHB should not be limited to delivering large scale strategic projects
- 60% said the NHB should be limited to those settlements where new housing is being developed with this statement

8. RISK IMPLICATIONS

- 8.1 It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.
- 8.2 It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.
- 8.3 The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
Failure to successfully deliver the Medium Term Financial Strategy	Ongoing review of budget implications and accurate forecasting.	S Kohli

9. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS

- 9.1 The impact on Parish Councils are detailed in the Appendices to this report
- 9.2 Changing funding as detailed in this report gives greater funding opportunities to rural areas

10. CORPORATE IMPLICATIONS

- 10.1 By submitting this report, the report author has taken the following into account:
- Community Safety implications
 - Environmental implications
 - ICT implications
 - Asset Management implications
 - Human Resources implications
 - Planning Implications
 - Voluntary Sector

Background papers: Medium Term Financial Strategy

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