

The Future of the New Homes Bonus: Draft Response to Consultation

The efficacy of the current Bonus

The government would firstly like to hear stakeholders' views on the efficacy of the Bonus in positively influencing behaviour to promote ambitious housing delivery.

Question 1: Do you believe that an incentive like the Bonus has a material and positive effect on behaviour?

New Homes Bonus (NHB) has been shown to act as a powerful incentive to deliver increased housing growth across the country and it should continue to encourage and support growth. The Bonus provides a significant incentive to drive growth and determine applications in a timely manner. For residents and communities, it is a way of investing in infrastructure and showing them the positive side of development. It is a well understood growth incentive by residents, elected members and local authorities.

South Norfolk Council has driven significant housing growth. Since 2011 we have delivered over XX dwellings. We are committed to delivering economic growth, productivity and prosperity for our District and wider region. At South Norfolk Council, we have invested our NHB in growth initiatives such as major refurbishments to our Leisure Centres, loans to our wholly owned housing companies to deliver further housing and commercial units supporting economic growth within the district, investment in our local market towns and infrastructure all with a view to sharing the benefits of growth with our communities. For our authority, the NHB has therefore served to demonstrate to our communities the benefits resulting from growth and financially supported key growth initiatives across the District, which may otherwise have been difficult to identify funding for. The Council has also in the past utilised the affordable housing premium to reinvest in other affordable housing schemes often to remove the barriers to schemes coming forward such as funding towards infrastructure.

Finally, the NHB has not only incentivised the building of new dwellings but has also conversions of buildings and in the initial years the bringing of long term empty houses back into use however there are now other levers available to Local Authorities to tackle this issue.

Question 2: If you are a local authority, has the Bonus made a material impact on your own behaviour?

Yes, the authority continues to plan to meet its housing needed in full, with a strong emphasis on delivery and the timely determination of planning applications.

For South Norfolk Council the NHB scheme has been a significant source of funding £38.7m since 2011 when the scheme was introduced by top slicing the funding settlement. It currently represents 21% of our net revenue budget and as mentioned above in the response to question 1 has been used since its introduction to invest in growth initiatives such as major refurbishments to our Leisure Centres, loans to our wholly owned housing companies to deliver further housing and commercial units supporting economic growth within the district, investment in our local market towns and infrastructure all with a view to sharing the benefits of growth with our communities. For our authority, the NHB has therefore served to demonstrate to our communities the benefits resulting from growth and financially supported key growth initiatives

across the District, which may otherwise have been difficult to identify funding for. The Council has also in the past utilised the affordable housing premium to reinvest in other affordable housing schemes often to remove the barriers to schemes coming forward such as funding towards infrastructure.

Beneficial in community engagement & accepting growth

Question 3: Are there changes to the Bonus that would make it have a material and positive effect on behaviour?

With the reduction in legacy payments, the value of the bonus is now in effect only 1/6th of the reward under the original Bonus scheme. This has significantly reduced the power of this incentive. Restoring the value of bonus payments would naturally have a material and positive effect by restoring the power of the incentive and would recognise that the impact of housing growth in communities lasts longer than one year so actually having legacy payments helps to provide additional funding to support this. The Government could use NHB to further support the delivery of affordable housing and to change LA's behaviours in relation to government agendas.

The split in two-tier areas

Under the current scheme, in two tier areas, allocations are split 80/20 between District and County Councils. The rationale for this split was that for the incentive to be most powerful, it needed to be strongest where the planning decision sits – the lower tier in two tier areas. The government however also recognised the role, in two tier areas outside London, of the upper tier in the provision of services and infrastructure and the contribution they make to strategic planning. Payment of the Bonus was therefore split between tiers outside London: 80% to the lower tier and 20% to the upper tier. The government would now like to hear views on whether this arrangement should be continued in a reformed Bonus.

Question 4: Should the government retain the current 80/20 split in any reformed Bonus, or should it be more highly weighted towards the District Councils or County Councils?

In order to meet the Government's objective of being a 'powerful incentive' the payment needs to be heavily weighted towards where the planning decision sits. It is our view that, as the authority with greatest responsibility for housing and planning, that it is right the New Homes Bonus goes predominately to District Councils, who can take decisions closer to the citizen than County Councils. The current 80/20 split meets this requirement and should be maintained.

The affordable housing premium

Under the current scheme, there is a premium of £350 per additional affordable home. This was introduced to reward local authorities that provide the right balance of housing to meet the needs of local people, ensuring that affordable homes are sufficiently prioritised within supply. The government seeks views on whether this feature should be retained in a reformed Bonus

Question 5: Should the affordable housing premium be retained in a reformed Bonus?

It is Planning Policy that primarily drives the delivery of the right balance of housing and affordable homes i.e. the requirement that a certain percentage of new homes must be affordable. The current payment of £350 is not significant enough to provide a 'powerful incentive' especially since the legacy payments have been removed and would need to be increased to do this. However, local authorities do not receive any CIL income for affordable homes to contribute to the infrastructure, and therefore when we look at the overall funding

package the affordable housing premium helps balance up the overall funding available for infrastructure.

South Norfolk Council in the past has used this element of the new homes bonus to support the delivery of new affordable housing through grants to housing associations to assist in bringing forward schemes which would not otherwise be viable often due to infrastructure needs for example the installation of electricity to a site.

Question 6: Is £350 per additional affordable home the right level of premium, or should this level be increased or decreased?

The current payment of £350 is not significant enough to provide a 'powerful incentive' especially since the legacy payments have been removed, when the scheme was introduced and the payment of £350 was received for five years (the scheme was changed prior to receiving the 6th year in relation to the affordable homes element) that would have been more of an incentive providing £1,750 over the five years per dwelling. It would need to be increased to achieve this especially as the sum of £350 per dwelling hasn't changed since the scheme was introduced back in 2011 so hasn't reflected inflation during that period.

Empty homes

The current scheme also rewards local authorities for bringing long-term empty properties back into use. The rationale for this feature of the Bonus was to strengthen the incentive for local authorities to identify empty properties and work with property owners to find innovative solutions that allow these properties to be brought back into use. The government also seeks views on this aspect of the Bonus.

Question 7: Should a reformed Bonus continue to reward local authorities for long-term empty homes brought back in to use?

When the Bonus was first introduced, it did encourage authorities to work with owners to bring a number of long-term empty homes back into use. However, the remaining long-term empty properties that remain are more difficult to bring back into use due to owner resistance or other factors. Therefore, if it remains, the financial incentive needs to be increased to compensate for the fact that the remaining properties that have been empty for many years are more challenging.

In addition, since the introduction of the NHB Scheme the government has introduced changes to the charging of Council Tax on long term empty homes to encourage homeowners to bring long-term empty properties back into use – namely the fact that Council Tax charges rise to up to 5 times the standard charge.

Local authorities also have an incentive to bring long-term empty properties back into use, as long term empty properties can attract anti-social and criminal behaviour, and if the homeowner is willing to rent these to the local authority they can provide a valuable source of additional social rental properties. It is not therefore necessary to continue to use the Bonus to affect change in this area.

Time period on which payments are based

Payments under the current Bonus are based on the most recent year of housing delivery. However, there is considerable year-on-year fluctuation in housing delivery within local authorities – fluctuation which may not necessarily reflect an underlying change in performance. One possible approach would be to instead base payments on the average of the most recent

three years of housing delivery. The government seeks views on whether a reformed Bonus should be adjusted in this way.

Question 8: Should the Bonus be awarded on the basis of the most recent year of housing delivery or the most recent three years?

While basing the bonus on each year's delivery is the most simple option the Council agrees that using a 3 year average will reward consistent delivery, and takes into account that delivery of housing development can be uneven reflecting economic downturns which are not within a local authority's direct control. The Council's preference would be to use a 3-year average which we consider would still meet the Government's objective of being 'simple in terms of understanding and implementation'.

Changes to the threshold for payment

Under the current scheme, the threshold for payment is a baseline percentage of annual housing growth: local authorities are only rewarded for net additional homes added to the Council Tax Base above a baseline of 0.4% growth in their housing stock over the previous year.

Option A: Raising the baseline percentage

One option would be to keep the payment threshold as a baseline of annual housing growth, but to raise the baseline percentage. The government is considering a new baseline of 0.6%, 0.8% or 1.0% growth, and invites views on each of these possibilities. The government considers that raising the baseline, making the reward more challenging to achieve, would sharpen the incentive effect of the Bonus and encourage more ambitious housing delivery.

Question 9: Do you agree that the baseline should be raised?

No, we believe the baseline should be held at 0.4% as this is already a challenging target for some council. Increasing the target risks authorities finding the target impossible to deliver, thus reducing the incentive all together, which would be counterproductive, particularly for areas where there is little opportunity to develop.

Raising the baseline would have significant detrimental impacts across all local authorities. In July 2018 The All Party Parliamentary Group for District Councils published its inquiry into District Council Finances in July 2018. The report commented that "The introduction of the 0.4% baseline threshold for the New Homes Bonus (under which no New Homes Bonus is received) removed funding of over £70million from district councils in 2017-18, and was passed to adult social care authorities. Despite this, 57 adult social care authorities were worse off as a result, since they also lost the New Homes Bonus".

We would request that the Government retain the current baseline and should further commit to no further increases to the baseline over the next coming years to allow for local government to have certainty when setting budgets.

Question 10: If the baseline is to be raised, should it be raised to 0.6%, 0.8% or 1% of housing growth since the preceding year?

The Council does not agree with the principal that the baseline should be raised as this could actually act as a disincentive for those authorities whose housing delivery is low which for a number of factors may be due to barriers outside their control.

If Government is determined to raise this, the rise should be as small as possible. Any 'saving' arising from a change to the Bonus mechanism, that results in a reduction in amount of Bonus paid, must be returned to the local government funding settlement and redistributed, given that the Bonus is currently top sliced from the Revenue Support Grant.

Question 11: Why should the government opt for the baseline you have recommended in answer to the previous question?

The Council does not agree with proposal to increase the baseline but as per the response above it would opt for it only to be raised to 0.6% to ensure the scheme remains an incentive for those authorities who may not be able to deliver significant growth. If the higher level of 1% was used, then this would leave very few local authorities to qualify for any reward under this scheme given that nationally housing growth is around 1%.

Question 12: If the baseline is to be raised, should this change be combined with higher payment rate?

While the Council does not support an increase in the baseline if it was to increase then it would support the higher payment rate. Option A is the most simplistic of the three proposals A to C, in that it rewards all authorities who deliver growth above a national baseline and that conforms to one of the Government's objective of being 'simple in terms of understanding and implementation'.

Option B: Rewarding improvement: setting the payment threshold by reference to a local authority's past performance

An alternative approach would be to set the threshold relative to a local authority's own past performance in respect of housing growth. Rather than having a single baseline of housing growth for all authorities, this approach would in effect reward authorities for improvement on their average past performance. Authorities would be rewarded for each net housing addition to the Council Tax Base above a certain percentage (call it $x\%$) of the annual average of past net housing additions (over a designated period of time).

The purpose of this reform would be to provide an incentive for authorities with a less successful record of housing delivery to improve rapidly. Both the value of the variable x , and the time period over which average past performance should be calculated, are parameters on which the government would welcome views. Time periods the government is considering for calculating average past performance are 5 or 10 years. The government is not minded using a period shorter than 5 years, as year-on-year fluctuations in housing delivery within a given local authority likely make this inappropriate.

Question 13: Should the government adopt a new payment formula for the Bonus which rewards local authorities for improvement on their average past performance with respect to housing growth?

No, we believe that this reduces the incentive for those authorities that have delivered significant housing growth in the past, as it would:

- give a reward to an authority that has delivered no growth in the past, but now delivers a minor growth of say 0.2%
- as opposed to incentivising an authority that has delivered 1.5% growth in the past, to continue to deliver high level of growth of say 1.5%.

le it works against authorities that deliver continued high delivery rates.

This goes against the Government's objective of being 'simple in terms of understanding and implementation'. Any 'saving' arising from a change to the Bonus mechanism, that results in a reduction in amount of Bonus paid, must be returned to the local government funding settlement and redistributed, given that the Bonus is currently top sliced from the funding settlement.

Question 14: If the government is to adopt such a payment formula, above what percentage (x%) of average past net housing additions should the Bonus begin to be paid? In other words, what should the value of x be?

We do not agree that the payment formula should be adopted. However, if this proposal was introduced you should be rewarded for any increase in growth above your past performance.

Question 15: If the government is to adopt such a payment formula, over what period should the annual average of past net additions be calculated? Should it be a period of 5 years or 10 years?

We do not accept the premise that such a payment formula should be adopted. However, any period would need to reflect the length of the economic cycle, which may well be longer than 5 years.

Option C: A hybrid approach: rewarding improvement and high housing growth

A further alternative would be a hybrid of options A and B. This hybrid approach would involve adopting a new payment formula that rewards authorities for either improving on their average past performance or achieving high housing growth. Under this option, authorities would be rewarded for each net housing addition to the Council Tax Base above the lower of:

- x% of the annual average of past net housing additions (over the relevant designated period of time); and*
- y% of the authority's housing stock.*

The purpose of this hybrid approach would be for the Bonus to continue to incentivise authorities to perform well, but also provide an incentive for authorities with a less successful record of housing delivery to improve rapidly. The government welcomes views on what the values of the variables x and y should be in this payment formula. The government's current preferred approach would be to set the value of y significantly higher than the current 0.4% baseline.

Question 16: Should the government adopt a new payment formula for the Bonus which rewards either improved performance or high housing growth? Please explain why or why not.

This option is preferable to option B but is not as simple and effective as option A and goes against the Government's objective of being a 'simple in terms of understanding and implementation'.

Any 'saving' arising from a change to the Bonus mechanism, that results in a reduction in amount of Bonus paid, must be returned to the local government funding settlement and redistributed, given that the Bonus is currently top sliced from the funding settlement.

Question 17: Above what percentage (x%) of average past net housing additions should the Bonus begin to be paid? In other words, what should the value of x be in this proposed hybrid payment formula?

We do not accept the premise that such a payment formula should be adopted.

Officers to expand this response once modelling has been undertaken.

Question 18: Above what percentage (y%) increase in the authority's housing stock should the Bonus be paid? In other words, what should the value of y be in this proposed hybrid payment formula?

We do not accept the premise that such a payment formula should be adopted. However, if this approach was adopted our preference is for y to be no higher than 0.4%.

Supporting infrastructure investment in areas with low land values

In the Planning for the Future White Paper, the government proposes to replace the existing system of developer contributions with a new Infrastructure Levy. The Infrastructure Levy would capture a proportion of land value uplift associated with housing development and use this to fund affordable housing and infrastructure. Land value uplift is greatest in areas where development values are high. The government is currently considering responses to Planning for the Future, and decisions on how to take the Infrastructure Levy forward are subject to this consideration.

Option D: Repurposing the Bonus to support infrastructure investment in areas with low land values

One approach would be to repurpose the Bonus to balance the effects of low developer contribution income in lower value areas by providing an incentive to local authorities to bring forward development in these areas. This would support local authorities in lower value areas to provide infrastructure and affordable housing alongside development. This approach depends on core elements of the Infrastructure Levy being taken forward in line with the approach proposed in the White Paper.

Question 19: Do you agree with the proposal to repurpose the Bonus to balance the effects of the Infrastructure Levy by providing an incentive to authorities to bring forward development in lower value areas?

No, we strongly disagree with this proposal, some of the highest value areas are also the areas with the greatest housing needs. This proposal carries a risk that the benefit of the Bonus for higher value areas will be negated, resulting in a lower level of housing development overall. It would be disappointing if the NHB funding was used simply to top up the infrastructure levy. There is also a risk that this would transfer funding away from rural areas towards urban areas when it can be more difficult and expensive to deliver infrastructure in rural areas

The need for homes and the issues of low developer contribution income are different issues with different root causes. The issue of low developer contributions needs to have a different resolution.

Question 20: What, in your view, would be the advantages and disadvantages of repurposing the Bonus in this way?

While the advantage of this proposal would be to supplement the Council Infrastructure Levy to deliver housing in specific areas the disadvantage is that it would not encourage housing delivery in some of the areas where there is the greatest housing need and where the values are much higher.

Question 21: If the option is to be pursued, should this reform to the Bonus be postponed until the new planning system is enacted?

This approach depends on core elements of the Infrastructure Levy being taken forward in line with the approach proposed in the White Paper, and therefore needs to be postponed until the new planning system is enacted

Modern Methods of Construction

The Bonus presently incentivises general housing growth, and the government intends to keep this as the primary objective of any reformed Bonus. However, the government also wishes to promote take up of modern methods of construction (MMC), and is considering ways in which the Bonus might, as a subsidiary objective, incentivise MMC. The government is keen to hear views on what levers local authorities have at their disposal to encourage the use of MMC and how a reformed Bonus might best reward these.

Question 22: In your view, what levers do local authorities have at their disposal to encourage uptake of MMC, and how impactful is such encouragement likely to be?

Local authorities have limited if levers to encourage MMC, one minor lever is a local authority's ability to set energy efficiency targets, which can encourage MMC. Providing developers clear guidance that planning consent for MMC would be forthcoming, can also encourage uptake in a minor way. However, the Build better Build beautiful mantra, can work against construction methods such as MMC.

The biggest issue is the current cost of delivering housing using MMC, in particular MMC is not cost effective for small developments, and therefore not able to be used by SME developers. This would penalise areas where the majority of growth will be delivered on smaller sites. A significant throughput of housing is required for MMC to become financially viable and in areas where there isn't a critical mass this is not possible,

Another concern is the ability for households to get mortgages on market properties built using MMC, and this is not an issue that local authorities can directly affect.

Option E: Introducing a premium for modern methods of construction (MMC)

One approach would be to introduce a premium for new homes built using MMC, analogous to the premium for affordable homes paid under the current scheme. The government recognises that the data on MMC required for this option is not currently collected and invites views on the burden these additional data requirements might impose on local authorities. One approach being considered by the government is to collect the relevant MMC data at the point at which a building is signed off as habitable.

Question 23: Should the Bonus include a premium for new homes built using MMC? Please explain why or why not.

No, we do not support a premium for MMC, the Bonus is about increasing the number of properties delivered, and there is no reason why one method of construction should be rewarded more than another method. Other approaches should be used to promote alternative methods of construction.

Question 24: If you are a local authority, would such a premium make a material impact on your behaviour? Would it, for example, encourage you to look for opportunities to bring through developments that are amenable to the use of MMC?

No, currently MMC can only meet a small component of the total need. As the local planning authority, we are supportive of MMC but the use of MMC is driven by a number of factors; the site conditions, numbers being delivered, whether potential purchasers can obtain mortgages. In particular MMC is not cost effective for small developments, and therefore not able to be used by SMEs. This would penalise areas where the majority of growth will be delivered on smaller sites. You need a significant throughput of MMC to make it financially viable and areas where there isn't a critical mass this is not possible.

Question 25: How onerous a data burden would this option impose on local authorities? Do you agree with the proposal to collect the MMC data at the point at which a local authority signs off a building as habitable?

Local authorities do not have an obvious way of registering this information at present, and there would need to be a clear definition of what is classed as MMC which could be very difficult to define. For instance, how much of a dwelling would need to use MMC for the dwelling to count as being MMC 25%, 75%? Any requirement to collect this data would be a new burden and would need to be fully funded by Government.

Option F: MMC as a condition on receipt of funding

An alternative approach to using the Bonus to encourage take up of MMC would be to make receiving Bonus funding conditional upon an authority's achieving an MMC-related target. This target could relate to the proportion of new housing additions which used MMC. For instance, the condition might require that w% of net additional homes used MMC in order for the Bonus to be paid.

Question 26: Should the government make it a condition of receiving the Bonus that w% of net additional homes used MMC in order for the Bonus to be paid? If so what should the value of w be?

We would definitely not support this proposal, the bonus needs to retain a strong focus on delivering additional dwellings, using whatever method is most appropriate for the local circumstances and local market. Any deviation from the core purpose risks diluting the incentive and focusing only on the areas that can deliver large sites, whereas smaller sites are often easier to bring forward and deliver.

Question 27: Why should or shouldn't such a condition be introduced?

See previous responses above, the market will determine which method of construction is appropriate for each site. The local authority should not try to influence this, otherwise it risks making some developments unviable and preventing any housing coming forward.

If the government wishes to incentivise the use of MMC then this should be a direct incentive to the developers rather than the planning authority and perhaps support for buyers to assist with obtaining mortgages through mechanisms such as the Help to Buy scheme. Alternatively, the Government could use the planning regime to make it easier for housing using MMC to come forward, there are many other ways this could be addressed.

Local plans

Government policy is that all local authorities should maintain up-to-date local plans as the fundamental building block of a plan-based system. The government is also considering ways in which, as a subsidiary objective, the Bonus might incentivise the development and maintenance of up-to-date local plans.

Option G: Requiring an up-to-date local plan

One possible approach would be to make it a condition of funding that a local authority has an up-to-date local plan. An alternative would be that the local authority must be able to credibly demonstrate satisfactory progress towards developing one but such an approach would need to be sufficiently robust to prevent abuse. The government could consider payment of the bonus at a reduced rate until such time as an up-to-date local plan is in place. This could be a reduction of 25%, 50% or 75%

Question 28: Do you think that local authorities should be required to have a local plan, or demonstrate satisfactory progress towards one, in order to receive funding?

No, there are a myriad of issues that cause delays to local plan including judicial reviews, many of which are not within the local authority control. Therefore, any such condition would potentially penalise authorities unfairly.

The Bonus is about delivery, and either with or without an adopted local plan there are many actions that councils can do to incentivise new properties. Adding the local plan requirement to obtain funding would dilute the effectiveness of this Bonus for a number of authorities. However, if the Government pressed ahead with this then the condition should be around demonstrating progress towards developing one.

Question 29: Do you think the bonus should be paid at a reduced rate until such time as a local authority has an up-to-date local plan in place, and should it be 25%, 50% or 75%?

We do not accept the premise that such a condition should be introduced. If Government is determined to do this, the percentage penalty should be as small as possible so as not to reduce the incentive nature of the new homes bonus which is ultimately to deliver housing.

Question 30: If you are a local authority, would this encourage you to develop or maintain an up-to-date local plan?

We are fully committed to deliver robust local plans quickly, without compromising the quality of these, a financial penalty would not affect our approach in achieving this. Although it could be counterproductive in that a penalty would reduce the overall amount of resource available to the authority and thus by association the level of resource available to deliver the local plan.