

**The Future of the New Homes Bonus Consultation**

**Society of District Council Treasurers Response**

**General Comments**

The Society welcomes the opportunity to comment on the future of the New Homes Bonus (NHB) consultation document. As well as providing a response to the specific questions in the consultation the Society would also make the following key comments about the NHB scheme and proposals:

* We note that there are no questions in the consultation regarding the quantum of NHB. This is an important issue particularly since NHB is paid annually from a top slice of the Revenue Support Grant. In the 2021/22 settlement the surplus from this top slice was used to fund other increases in grant rather than returned directly to local government through the settlement.
* The quantum is important and it is difficult to assess the reward options without knowing the overall amount that is available or the reward for each additional unit. The top slice should be preserved and greater transparency over the use of top sliced resources.
* The consultation does not say what will happen to the final legacy payment in 2022-23. We would ask that the government clarify the position on whether that payment is still guaranteed, be preserved within the new scheme
* NHB has been an effective incentive for local planning authorities to deliver new homes to meet national targets. Given that shire districts are integral to the delivery of new homes the Society would strongly suggest that the 80/20 split with County Councils is removed and that NHB should be awarded only to local planning authorities.
* As an alternative, the government could consider a top-slice a proportion of the New Homes Bonus funding and redirect this to social care authorities so that they do not suffer any detriment. This option would only be acceptable if the quantum of funding overall was maintained at current levels, as a minimum.
* The Society is opposed to any increase in the baseline and would strongly suggest that the baseline is removed in order to provide an even stronger incentive for new homes.
* The proposals and options discussed in the consultation will overcomplicate the

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

**Response** – Yes. The NHB is a well understood and reasonably simple scheme which rewards local authorities for delivering new homes. A recent survey undertaken by District Councils Network, 62% of respondents said that the scheme had a positive impact on their Council’s behaviours in creating new homes, and 70% said NHB had either been important or very important in protecting core services.

However, we would point out that there are limits on what local authorities can deliver because of local constraints on the availability of land, planning constraints and reliance on developers to actually take forward their planning permissions.

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

**Response -** The Society would point out here that whilst NHB does have a positive incentive effect it cannot be the only consideration for local planning authorities. Our members have given examples of positive impacts on behaviour, which include:

* Investing in infrastructure (such as leisure facilities, open spaces and environmental improvements)
* Providing an enterprise centre to stimulate small businesses.
* Delivering affordable housing
* Funding for replacement community assets such as playgrounds.
* Supporting capital projects, including housing developments and regeneration projects.
* Meeting the costs of delivering growth.
* Representing a significant contributing factor to reducing council tax increases
* Protecting core local services against the loss of the Revenue Support Grant

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

Yes. Any further reduction in the total funding for the scheme and any further restrictions on local authorities benefitting from the scheme will dilute the incentive. This includes any increase to the baseline and removing legacy payments. The total funding available for the future NHB scheme mist not be reduced any further and the government should consider removing the baseline entirely.

**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?

**Response –** Given shire districts vital role as local planning authorities in two-tier areas, there appears little rationale for the current 80/20 split and the society would suggest that this is removed, with shire districts retaining 100%. This would more appropriately reflect districts role in successfully delivering new homes. All the stages from pre-application advice, application and validation, consultation and publicity, site visits and assessment, recommendation through to decisions are undertaken by district councils, with the county council being involved only in infrastructure issues and the provision of information. District Councils are also responsible for determining the Local Plan.

As noted in our opening comments, the society suggests that in order to compensate County Councils for the loss of income (which equates to only 0.34% of their core spending power) one option for Government could be to top-slice a proportion of the New Homes Bonus funding and redirect this to social care authorities so that they do not suffer any detriment. This option would only be acceptable if the quantum of funding overall was maintained at current levels, as a minimum.

The current 80-20 split has arguably benefitted county councils disproportionately. This is because a county receives a county council receives a share of the reward for housing growth achieved by *any* of its districts, and this is not offset by a lack of housing growth in other districts. In other words, while a district is only rewarded for net housing growth across its entire geographic area, a county is rewarded for any net housing growth achieved at the district level. Overall, three quarters of counties received more NHB funding in 2021/22 than they would have if the calculations been carried out at the county level. Thus, while counties receive 20% of any bonus generated by their districts, this usually amounts to more than 20% of any bonus that would have been generated by the county as a whole.

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

**Response –** Yes, affordable housing is desperately needed and so delivery should continue to be incentivised. However, this should be as an extension to the quantum of the main scheme, rather than reducing the overall funding levels from the main scheme. Government should retain the savings made from the removal of an additional year of legacy payments from 2022-23 within a reformed bonus, and not redistribute it as SFA. This would fund a return to a 0% threshold, accompanied by a higher payment rate per unit, as well as the additional premiums proposed for affordable homes, modern methods of construction, and empty homes. In less affluent areas where housing delivery can be challenging due to viability, the affordable housing premium is a powerful incentive for District Councils to continue making land supply available to meet local needs.

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

**Response –** The currentpremium is too low to act as a true incentive. The society would support an increase in the premium but funded from the estimated savings of circa £200m from the removal of the 2022/23 legacy year. An increase in the affordable premium should not have the effect of reducing the payment for other net additions.

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

**Response –** Yes, but as an extension to the quantum of the main scheme rather than from within existing funding.

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

1. **Response –** Most recent three years.Basing NHB allocations on average net housing growth over three years could be a useful way to smooth funding over time and reduce volatility. It could also increase the predictability of payments. To predict next year’s NHB payment, a local authority would need to know the previous two years’ housing growth and forecast the following year’s growth. The first two of these values would already be known to the local authority so any volatility in the 3rd year will have less of an impact.

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

**Response** – No. We strongly disagree with the principle of the baseline and believe it should be removed in its entirety. There is no rationale for the current level of the baseline and no rationale set out in the consultation as to why it should be increased. Increasing the baseline would fail to consider the various constraints faced by local authorities in delivering housing growth and will significantly dilute the incentive effect.

Instead, Government should use the savings made from the removal of an additional year of legacy payments from 2022-23 within a reformed bonus, to fund a 0% baseline, rather than redistributing through SFA.

**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?

**Response –** Please see response to Q9.We do not support any increase in the baseline.

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

**Response –** Any increase in the baseline will dilute the incentive effect of NHB.

Furthermore, raising the baseline may result in very few authorities achieving a bonus which in turn is likely to lead to significant financial resilience issues, particularly following the impact of COVID-19 and coupled with any changes from the Fair Funding and Business Rates reviews.

We welcomed the “Lower Tier Services Grant” for 2021/22 that was announced as part of the settlement which has acted to smooth the effect of the loss of legacy payments and therefore reduction in overall resources in 2021/22. However as yet, district councils have no certainty as to whether this will be factored into the 2021 Spending Review. We therefore call on government to ensure that wider funding reflects the spending needs of councils and that additional financial support is put in place to allow for a transitional period between the current and proposed new schemes.

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

**Response –** We strongly oppose any increase in the baseline as mentioned above. We would also suggest that any other changes to the scheme, such as changes to payment rates, should be implemented using existing resources and with transitional arrangements.

**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?

**Response –** any changes to the payment formula will create winners and losers, and so we strongly suggest that transitional arrangements are adopted within the reformed scheme.

**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?

**Response –** It is difficult to comment on thiswithout seeing precisely how the calculation would be made. However, we would suggest that lower values of x would be better as higher values could undermine incentives due to the baseline.

**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?

**Response –** We would refer you to responses from individual districts.

**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.

**Response –** One of the advantages of the New Homes Bonus Scheme is that it is simple to understand and calculate. The proposals in the consultation will lead to increased complexity and less certain incentives. We would reiterate our call for a simpler system with complete removal of the baseline. Excessively high levels of **x** and **y** could undermine incentives by putting the baseline further out of reach. Higher thresholds would lower authorities’ perceived probability that each additional property would be eligible for Bonus funding. Local authorities would therefore attach a lower expected value to the Bonus when weighing the costs and benefits of new housing developments.

**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?

**Response –** Again we are concerned about increasing the complexity of the scheme and would reiterate the points made at Q16 above. .

**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?

**Response –** see above.

**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?

**Response –** No, the society does not support this option.

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

**Response –** As set out above, the advantage would be potentially avoiding borrowing costs for infrastructure works, but the disadvantage would be a loss of flexibility over the use of the bonus and ability to protect core services. It also fails to recognise that part of the reason for these being low value areas is that there is not sufficient demand. More development will only come forward if there is market demand.

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

**Response –** Yes, except the Government should remove the baseline for the bonus and award 100% of the bonus to local planning authorities.

**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?

**Response –** This will depend on the individual circumstances for local authorities, in terms of local market conditions and demand. The mortgage ability of MMC’s remains a barrier.

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

**Response –** No. This will over-complicate the scheme, it is largely outside of local authority control and there are other types of housing with low-carbon benefits similar to MMC.

**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?

**Response –** While local authorities are beginning to include the use of MMC in their local plans we do not consider that it would make a material impact on behaviour.

**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?

**Response –** District Councils routinely monitor the delivery of new housing developments, at least on an annual basis, and therefore have the ability to collect relevant MMC data alongside other Government returns. However additional funding to support scarce staffing resources should be considered through New Burdens funding. It will be important to confirm the definition of “habitable” which would be signified by a Building Control Certificate of Completion compared to being completed or under construction.

**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?

**Response –** No. We are not in favour of including MMC as any part of the scheme.

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

**Response –** As already noted, local authorities’ ability to influence use of MMC is limited. There are other types of construction with similar benefits and mortgage ability of MMC remains an issue.

**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?

**Response –** No. Local plans are delayed for a variety of reasons, such as delays caused by the Planning Inspectorate. Withholding NHB could cause significant financial resilience issues for those authorities impacted.

**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 by 25%, 50% or 75%?

**Response –** No, we do not support this option.

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

**Response** – The local plan is fundamental to the operation of the planning system and as such we do not believe that local authorities require any financial incentive to complete these. Paying the bonus at a reduced rate may in fact be counterproductive as it could force the authority to put forward a local plan that has not been sufficiently researched or debated.