

New Homes Bonus Consultation

Purpose of report

For direction.

Summary

This report provides an outline of the Government's New Homes Bonus consultation and the options set out for reform, to take effect from 2022/23 onwards. We are seeking views from Board Members ahead of drafting the LGA's response to the consultation.

Recommendation/s

That Members provide views on and discuss the options presented in the consultation to inform the LGA's response.

Action/s

Officers will develop a response to the consultation, for sign off by Resources Board Lead Members, the Chairman and Group Leaders.

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New Homes Bonus Consultation

Background

1. The New Homes Bonus (“the Bonus”) was introduced in 2011, in recognition of the vital role that councils play in creating housebuilding opportunities in their area, with the intended purpose of incentivising housing development and rewarding growth. The funding currently comes from a top slice of the Revenue Support Grant and is unringfenced, for councils to spend on local priorities.
2. The Government has paid out £9.5 billion through the Bonus since its introduction in 2011, rewarding a net increase in housing stock of 2 million. The most recent consultation on the Bonus concluded in December 2016 and introduced a new baseline threshold of 0.4% growth of housing stock and reduced legacy payments from 6 years to 5 years in 2017/18, and then 4 years from 2018/19. As a result, funding through the Bonus has reduced significantly, from a total of almost £1.5 billion in 2016/17 to £622 million allocated for 2021/22.
3. At the Spending Review in November 2020, it was announced that there would be a consultation on [the future of the New Homes Bonus](#), seeking views from the sector, with plans to implement reforms from 2022/23 onwards.
4. The consultation confirms that while the legacy payment committed in 2019/20 will be honoured, the concept will not be reintroduced. The Bonus for 2019/20 is the only remaining year with a legacy payment attached, totalling £221 million, which is reflected in allocations for the 2021/22 Bonus and will come to an end after 2022/23 financial year.
5. This paper summarises the key themes in the consultation document and sets out the options proposed, including amendments to the current system and potential new conditions of the Bonus. **Appendix A** includes the full set of questions contained within the consultation. The nature of the options in the consultation paper strongly imply that the Government is not intending to return to a larger envelope of funding for this purpose, nor is it proposing fundamental reform.
6. The LGA plans to respond to the consultation and is engaging with the sector to shape our response. This paper seeks to open the discussion around the proposed reforms, and we welcome views from members of this Board. The deadline for responses is 7 April 2021, and the sign off process for the LGA’s response is outlined in the Next Steps section below.

Reform of existing elements of the Bonus

7. The consultation welcomes views on the efficacy and distribution of the Bonus:
 - 7.1. Whether the Bonus is an effective incentive which has proven results in influencing positive behaviour in councils and delivering ambitious housing targets.
 - 7.2. Whether the district and county council allocation split should remain at 80/20.
 - 7.3. The adequacy of the Affordable Homes Premium, in which new developments to the affordable housing supply attract a £350 additional payment per home. The consultation seeks views on retaining this and whether £350 is a sufficient amount to incentivise affordable housebuilding.
 - 7.4. The effectiveness of including long-term empty properties which local authorities have brought back into use as part of the Bonus.
 - 7.5. The time period on which payments are based – recognising the year-on-year fluctuation of housing delivery, councils are asked to consider whether a better option would be to base payment on the average of the previous three years.
8. The consultation sets out the Government's intention to change the threshold for payment, and outlines potential options for reform here:
 - 8.1. Option A: Raising the baseline percentage from 0.4% to 0.6%, 0.8% or 1%, with an assumption by Government that to 'sharpen' the incentive would encourage more ambitious delivery, and with potential to combine a higher baseline with a higher payment rate.
 - 8.2. Option B: Rewarding improvement rather than growth - the Bonus could be reformed to award councils for improving their housing delivery over an annual average of their past net additions. The stated purpose of this would be to incentivise councils to improve delivery rapidly, although it may penalise those who have a consistently high delivery rate. There is also a question included about the period of time over which a council's average should be calculated.
 - 8.3. Option C: A hybrid of the above options - councils would be awarded on the basis of a threshold set at the lower of the two estimates above.

New conditions to the Bonus

9. The consultation sets out proposals to repurpose the Bonus to balance the effects of lower land value areas identified as part of the new Infrastructure Levy, outlined in the government's [Planning for the Future White Paper](#). The Government acknowledges that this is dependent on key elements of their proposal – currently under its own consultation process – being taken forward. The consultation does not provide technical detail on this,

but the objective would be to encourage housing development in areas of lower land value, which could mean rewarding a higher bonus for homes built in these areas.

10. A suggested condition of the Bonus is to link the threshold for payment with the use of [Modern Methods of Construction](#) (MMC), a framework established to define what the Government believes to be innovative construction techniques. The consultation sets out options for either introducing a premium for properties built using MMC or developing an MMC-related target on which receipt of the Bonus would depend. The Government acknowledges that there is limited data surrounding this currently and welcomes views on the most efficient way to gather this data for use in calculating the Bonus.
11. The Government is also considering adding an element to the Bonus with payment contingent on the council having an up-to-date local plan. There are questions around the advantage of this being a condition of the Bonus, and whether it should be paid at a reduced rate – by 25%, 50% or 75% - until an up-to-date local plan is in place.

Next steps

12. In addition to seeking the views of Members of the Resources Board, officers will engage with Special Interest Groups attached to the LGA, Treasurers Societies and other key stakeholders to shape our response.
13. The LGA's response will be agreed by Lead Members of the Resources Board, as well as Leaders of the Political Group Offices and Chairman of the LGA.
14. The LGA encourages all councils to provide their own response to the consultation – the deadline for responses is 7 April 2021.

Implications for Wales

15. The New Homes Bonus applies to English councils only. We are in regular contact with the Welsh LGA and the other local government bodies in the devolved nations to exchange intelligence, ideas and consider joint work on more general finance matters.

Financial Implications

16. This work is within the LGA's core programme of work and carries no additional financial implications.

Recommendation/s

17. That Members provide views on and discuss the options presented in the consultation to inform the LGA's response.

Appendix A

Summary of questions

Question 1:

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

Question 2:

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

Question 3:

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

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?

Question 5:

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

Question 6:

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

Question 7:

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

Question 8:

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

Question 9:

Do you agree that the baseline should be raised?

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?

Question 11:

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

Question 12:

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

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?

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?

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?

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.

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?

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?

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?

Question 20:

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

Question 21:

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

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?

Question 23:

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

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?

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?

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?

Question 27:

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

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?

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%?

Question 30:

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