

## The Future of the New Homes Bonus Consultation

### Pre-amble and Headline Response from Tonbridge & Malling Borough Council

The Council has done what was asked and encouraged housing growth in their area. We are one of the best performing district councils in the south east in this respect. The consequent NHB allocations have helped to mitigate in part what can only be described as **devastating reductions in core funding of more than 65%** since 2010/11. However, what is proposed would put this funding stream at risk for many councils.

NHB was intended to be a powerful, permanent incentive to encourage housing growth. The latest proposed changes further undermine the original objective of the NHB and would put at risk the financial sustainability of some authorities, particularly district councils. As a result, it will come as no surprise that our preference is **for the pre-existing scheme and four years of payments to continue, without change.**

The intention not to reintroduce the concept of legacy payments gives an in-year reward only which, all other things being equal, **itself reduces the NHB allocation by 75%** from that received under the pre-existing scheme. To make up for that dramatic reduction, a four-fold increase in the payment rate notwithstanding any increase in the baseline would be required.

To put the current and suggested baselines into context, based on each in-year reward is to be for one year only, no legacy payments:

Baseline	0.4%	0.6%	0.8%	1.0%
NHB	£455,000	£282,000	£110,000	£0

Compared to the 2021/22 NHB allocation of circa £2.2m. **A reduction of at least £1,750,000 or 80%.** Each stepped increase in the baseline would place additional and increasing funding pressure on local authorities, in particular district councils and the services they provide. A higher payment rate, dependent on the rate and baseline used, would be **of little or no value** to many councils including high performing authorities that have done what was asked and encouraged housing growth in their areas.

Clearly, in such a scenario, there is a need for protection, as some authorities, particularly district councils, would face the prospect of their **financial sustainability being put at serious risk.**

One could be forgiven for thinking the consultation is more about reducing the size of the funding envelope in order to deliver a saving / redistributing resources than it is to do with 'sharpening the incentive' for encouraging housing growth. In that case, **why not** keep the basics of the scheme as now (albeit with no legacy payments) and apply a three-fold increase to the payment rate and increase the baseline to 0.6% both in the interests of simplicity and transparency and to aid financial planning? Such a scheme would deliver a significant saving on the requisite funding envelope compared to the pre-existing scheme.

To do more would knowingly placing an untold number of councils' financial sustainability at increased risk.

Introducing further layers such as the new infrastructure levy, modern methods of construction and local plan progress into the NHB regime would **only complicate matters unnecessarily whilst adding little to 'sharpen the incentive'**. NHB payments would not be the primary motivator for achieving and/or supporting these other objectives.

### **Responses to the Consultation Questions**

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

**Yes, in part, although it is not the primary influence.** The Council has done what was asked and encouraged housing growth. We are one of the best performing district councils in the south east in this respect. The consequent NHB allocations have helped to mitigate in part what can only be described as **devastating reductions in core funding of more than 65%** since 2010/11. However, what is proposed would put this funding stream at risk for many councils.

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

The Council's focus has and continues to be on supporting sustainable development that addresses assessed needs. NHB awards are a benefit of achieving this objective. We do not obstruct sustainable housing growth and we have been rightly and properly rewarded for our housing supply performance.

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

**No.** But further changes, as proposed, could have an adverse impact going forward and place a number of councils' financial sustainability and the services they provide at risk.

**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?*

**Yes.** The current split was considered appropriate at the introduction of the New Homes Bonus Scheme and we do not believe anything has happened over that time to warrant a change. A change in the current 80/20 split would simply see resources shift from one tier of local government at the expense of the other, placing further increased funding pressure on the tier from which the resources are taken. There would be no net gain in the funding of services and infrastructure by making this change.

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

**Yes.** Ensuring that affordable homes are sufficiently prioritised within supply should continue to be rewarded. This is particularly important for local authorities where there are high housing pressures and the gap between house prices and earnings is significant, making it very challenging for many local residents to access the housing market.

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

The premium has not changed since the introduction of the scheme. The main allocation, in contrast, has been uplifted each year in line with the increase in the national average band D council tax rate. Given this, it is suggested that the current premium be increased to £500 in lieu of an inflationary uplift over that time. This would be a reasonable change.

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

**Yes.** Bringing long-term empty properties back into use should continue to be rewarded.

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

Based on the most recent year of housing delivery.

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

**We disagree.** The baseline under the current arrangements can be adjusted to ensure the costs of the NHB scheme stay within the funding envelope. There is no compelling need to make any changes to the baseline unless the funding envelope is to be reduced.

One could be forgiven for thinking the consultation is more about reducing the size of the funding envelope in order to deliver a saving / redistributing resources than it is to do with 'sharpening the incentive' for encouraging housing growth. In that case, **why not** keep the basics of the scheme as now (albeit no legacy payments) and apply a three-fold increase to the payment rate and increase the baseline to 0.6% both in the interests of simplicity and transparency and to aid financial planning. Such a scheme would deliver a significant saving on the requisite funding envelope compared to the pre-existing scheme.

To do more would knowingly place an untold number of councils' financial sustainability at increased risk.

Introducing further layers such as the new infrastructure levy, modern methods of construction and local plan progress into the NHB regime would **only complicate matters unnecessarily whilst adding little to 'sharpen the incentive'**. NHB

payments would not be the primary motivator for achieving and/or supporting these other objectives.

**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?*

See response to question 9.

To put the current and suggested baselines into context, based on each in-year reward is to be for one year only, no legacy payments:

Baseline	0.4%	0.6%	0.8%	1.0%
NHB	£455,000	£282,000	£110,000	£0

Compared to the 2021/22 NHB allocation of circa £2.2m. **A reduction of at least £1,750,000 or 80%.** Each stepped increase in the baseline would place additional and increasing funding pressure on local authorities, in particular district councils and the services they provide. A higher payment rate, dependent on the rate and baseline used, would be **of little or no value** to many councils including high performing authorities that have done what was asked and encouraged housing growth.

Clearly, in such a scenario, there is a need for protection, as some authorities, particularly district councils, would face the prospect of their **financial sustainability being put at serious risk.**

There is no justification, especially now given the current wider economic context, for the baseline to be raised. However, if this inevitable, it should only be raised to 0.6%, subject to the suggested changes outlined in our response to question 9.

**Question 11:** *Why should the government opt for the baseline you have recommended in answer to the previous question? A higher baseline could potentially be combined with a higher payment rate (so as to keep the total level of funding broadly constant). Alternatively, the same payment rate could be maintained (in which case total funding would fall).*

See response to question 9 and 10. The government should opt for no change, because there are no compelling reasons for a change to be made. Local authorities have no direct influence or control over contextual factors such as the state of the economy and the housing industry which have such a significant bearing on housing delivery locally. Now, given the current context, is the least appropriate time to consider raising the baseline. That would be a hindrance not a help.

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

See response to question 9,10 and 11.

A higher payment rate, dependent on the rate and baseline used, would be **of little or no value** to many councils including high performing authorities that have done what was asked and encouraged housing growth in their areas. If the objective of a

higher payment rate is to keep the total level of funding broadly constant, the most effective and least complicated way of achieving this would be by making no changes.

**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.** The NHB scheme is based on a simple calculation of housing supply performance, why complicate matters? This proposal would be unfair and would only benefit those local authorities who have, historically, under-performed on housing delivery.

It would be unfair on those authorities who have made a significant contribution to housing growth in the last 5-10 years, where the prospects of improving on the average past performance, especially in the current economic climate, are very limited. This change is not justified and would pose a risk to the financial sustainability of district councils that have played an important role in boosting housing supply over the past decade.

**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?*

See response to question 13.

**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?*

See response to question 13.

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

**No.** See response to question 13.

**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?*

See response to question 16.

**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?*

See response to question 16.

**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?*

**We disagree.** NHB is un-ringfenced so that councils can choose how to allocate the funding to meet local priorities and support day-to-day services. On the other hand, section 106 agreements and Community Infrastructure levy, in the main, fund capital infrastructure projects necessary to support housing growth. Repurposing the NHB in this way would add to already severe revenue budget pressures. It would also, by definition, redistribute resources where, despite having done what was asked and encouraged housing growth, a council would not receive the level of reward it might otherwise have done.

The effects of low developer contribution income in lower value areas should not be intertwined with NHB, but as a standalone issue.

Furthermore, what is proposed is not an effective solution. The value of a housing market reflects the balance between supply and demand. A lower value market area is typically characterised by a low level of demand relative to the supply. It is not the case that supply is low because the local authorities are lacking an incentive to boost housing growth. There are many authorities in lower value areas who have taken positive approaches to encouraging the development of new homes to help sustain local communities and economies.

There are several reasons why the demand for housing in these locations may be low. These could include the accessibility of the location from other larger towns and cities, the health of the local economy, crime and safety statistics, etc. In such areas, the NHB award is likely to be low already and may be non-existent if the baseline figure is to be increased. This proposed option would not present a meaningful solution to the issues that have been identified.

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

See response to question 19.

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

**We disagree** with the proposal to repurpose the NHB in this way for the reasons set out above. A better understanding of the reasons for lower value market areas needs to be established first before considering appropriate solutions.

**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?*

Given that Modern Methods of Construction (MMC) as an industry is not very mature, we have not had the opportunity yet to consider possible levers to encourage uptake. However, we recognise that faster, more efficient forms of construction could result in the supply of more affordable products which means that there is an opportunity to consider the role of MMC in addressing local affordable

housing needs. There is also scope to consider how MMC can help address net zero carbon targets set at the local level.

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

No, the Bonus should not include a premium for new homes built using MMC, at this stage. More evidence needs to be gathered on the capacity of MMC in England and the opportunities for delivery across the regions and districts before such a decision is made. It would be unfair to introduce such a premium if the opportunities of using MMC are unevenly distributed across local authorities or the industry cannot keep up with demand. This decision needs to be evidence driven.

**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?*

It is unlikely that such a premium would make a material impact on our behaviour towards encouraging housing growth. We would view MMC from the perspective of how it could address our assessed housing needs in a timely, cost effective (affordable) and energy-efficient way.

**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?*

Given our current resources and priorities, including getting an up-to-date Local Plan in place, and the fact that this premium would not have a material impact on our behaviour towards encouraging housing growth, this option would impose an unnecessary burden upon us.

**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?*

No. The purpose of the New Homes Bonus is to incentivise housing growth. Introducing a condition of payment based upon a certain % of net additional homes using MMC may blunt that incentive for some local authorities, especially those where the opportunities to harness that technology are limited. Furthermore, it is premature to consider introducing such a requirement in the absence of a sufficient evidence base (see also response to question 23).

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

See response to question 26.

**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?*

Local authorities should not be required to have an up-to-date local plan in order to receive funding. Many local authorities have endeavoured to get an up-to-date local plan in place but their control and influence on the speed of the process ceases at

the point of submission. After this point, if how and when the plan progresses to adoption is determined by the appointed planning inspectors who are responsible for the examination stage. The length of the examination stage is difficult to predict, it has been known to last 2-3 years. It would be unfair to make it a requirement to have an up-to-date local plan in place in order to receive funding because the final progression to this point is ultimately out of the control of local authorities.

However, there may be merit in considering payment on the condition that local authorities have made satisfactory progress towards adopting an up-to-date plan. This would be dependent upon a reasonable definition of 'satisfactory progress'. This requirement should only be considered once an adopted plan is more than five years old. It should take into account a combination of factors including the number of years post the five-year period and whether the Regulation 19 stage has been reached in the preparation process. This is an appropriate stage to make this judgement because it represents when the Council has prepared its full pre-submission plan.

It should also consider those circumstances where a local authority had previously made significant progress towards an adopted plan, e.g. reached the examination stage, but where they have been forced to restart the plan-making process because of an inspector's decision. It would be harsh to ignore these earlier endeavours of the local authorities when making this judgement.

Furthermore, changes to national planning policy and legislation are already providing a basis for efficiency in local planning and it is fundamentally wrong for these areas of public policy to be mixed other than in measuring the outcome of new homes delivered on the ground. Introducing further layers would only complicate matters unnecessarily whilst adding little to 'sharpen the incentive'.

**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%?*

**No.** It would be harsh to introduce a reduced rate because progression to an adopted plan is not wholly within the control and influence of local authorities (see response to question 28), yet they would be the party that is penalised. The management of the process to adoption transfers from local authorities to the planning inspections at the point of submission. After this point in time, how the plan progresses (or otherwise) to adoption is determined by the examination inspectors. Local authorities have no certainty about this stage of the process and how long it will take and whether the outcome will be an adopted plan. Despite the Planning Inspectorate providing guidance about the examination phase, it is evident that the timelines set out are rarely achieved, with some examination phases extending over 2-3 years. Local authorities are unable to control this, which is why it would be unreasonable to introduce a reduced rate until such time that an up-to-date local plan is in place.

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

It would be a secondary consideration because the driving force for adopting an up-to-date local plan is the desire to have a plan-led system locally where there is a degree of certainty about how assessed needs will be addressed in a sustainable way, supporting local communities and economies whilst protecting areas and assets of particular importance. Please also see response to question 28.