

The Future of New Homes Bonus Draft Response to consultation

Question 1:

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

It is considered difficult to isolate and assess the 'real' impact of the Bonus on local authority behaviour and any increase in new homes as a result of this. The Council has always considered the New Homes Bonus Scheme to be a scheme which favours areas of high housing demand where the financial viability of housing developments is unlikely to be an issue. It is questionable whether such areas really 'need' the incentive provided by the bonus scheme and it could be argued that in areas of high demand that additional new homes would have been built regardless of the bonus simply as a consequence of market forces.

This, combined with the fact that funding for the Bonus is top-sliced from the overall funding provided for local government, results in an unfair re-distribution of resources and leads to less resources being available generally for areas of greater 'need'.

Hence, contrary to it being described as an incentive scheme, the Bonus appears to reward those authorities with already high housing demand and high development viability that arguably don't need additional financial support to the detriment of areas with low demand and low viability that due to changes in the funding system do need the financial support. Over time, both in its original form and as a consequence of the various changes to the Scheme, this inequality has been compounded as the Bonus continues to reward existing areas of high housing growth much of which it is likely to have occurred anyway whether the Bonus scheme was in place or not.

Fundamentally, there is little evidence that the Bonus alters behaviour or attitudes towards new house building. Other changes, such as in the planning system relating to the tilted balance and the 5 year housing land supply have had a greater impact.

Question 2:

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

Not explicitly.

The Council does acknowledge the financial support provided to it under the scheme but has consistently argued that the scheme design is flawed primarily for the reasons set out in the response to question 1 above. In essence, funding derived from the New Homes Bonus has simply replaced what has been lost in other funding (albeit in recent years the Bonus payments have been insufficient to that entirely).

And, there often has been an intuitive reaction not to support unacceptable housing schemes just because they would attract New Homes Bonus.

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That said, the Council has adopted a theme of “Grow” within its adopted financial strategy in recognition of the wider benefits of local housing and economic growth generally.

However, in areas like Pendle where housing demand and development viability is comparatively low, combined with above average levels of deprivation, the existence of the Bonus is not the key driver or primary consideration linked to the development of new homes within the Borough.

The elements of the scheme linked to the reduction in empty homes and units of affordable housing are welcome in principle but the existing methodology does not provide a sufficient level of incentive. Taking affordable homes as an example the level of payments under the scheme are considered insufficient as an incentive to drive the delivery of more affordable housing provision. Similarly, the level of incentive is also insufficient to bridge the gap between a market rent and an affordable rent and is therefore ineffective.

Question 3:

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

The approach of basing allocations on council tax returns is well established and easily understood. It is a transparent method that requires no additional collection or manipulation of data. However, whilst a Band D approach has a sound rationale to its use it does not adequately recognise the relatively low tax base capacity of councils like Pendle where currently c62% of listed dwellings are in Band A. Incentivising councils that deliver Band H dwellings at 3 times the rate of councils that deliver Band A dwellings is not helpful, particularly so when the pressure in supply is mainly in lower banded dwellings.

New Homes Bonus payments should be based on the number of dwellings delivered (i.e. there should be no adjustment to reflect the council tax valuation bands of the dwellings delivered).

The Council would like to see the baseline % removed. When it was first proposed, a significant majority (80%) of respondents to the consultation disagreed with its introduction but the Government ignored that response. If it must be retained, the baseline must be set by reference to the circumstances of the local authority. The current flat rate baseline adopting a ‘one size, fits all’ approach has a disproportionate and negative impact on those authorities who cannot benefit from significant housing growth as a result of their local market and economic conditions.

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?

No. It is our view that any funding arising from the New Homes Bonus should be provided wholly to the local planning authority. There are other mechanisms, such as use of s106 of the Town and Country Planning Act 1990 and the Community Infrastructure Levy, where upper tier authorities can place obligations on Developers to provide the necessary infrastructure.

Question 5:

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

Yes.

The 2017 UK Housing Review Briefing Paper (September 2017) argued that while supply is of critical importance, “so is the rather more neglected issue of affordability, in both the private and social housing sectors.”

In the foreword to the June 2017 IPPR report, What more can be done to build the homes we need? Sir Michael Lyons said: “We would stress that it is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy.”

This is echoed in research commissioned by the National Housing Federation (NHF) and Crisis from Heriot-Watt University, which identified a need for 340,000 homes each year to 2031 of which 145,000 “must be affordable homes”.

This is also linked to the general economic performance of an area and viability. Those areas that have high values and can require higher percentages of new housing to be built are affordable will gain further on those areas that have low values. This adds further to the inequitable impact that NHB has on low demand areas.

Based on the foregoing it is clear that the need for affordable housing remains high and hence the Council’s view is that the current premium should be retained in the scheme but be paid at an enhanced level.

Question 6:

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

Whilst acknowledging that it is a contribution to the cost, the current premium of £350 per annum is insufficient as an incentive to drive the delivery of more affordable housing provision.

Similarly, the proposed incentive is insufficient to bridge the gap between a 'market rent' and an 'affordable rent' and therefore is ineffective.

We believe that there should not be a separate enhancement for affordable homes but that the Government should provide adequate funding to places like Pendle to make sites viable so that affordable homes can be delivered.

Question 7:

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

Yes. Such properties can often be a blight on their local community and authorities such as Pendle have targeted and made significant investment in reducing the number of empty homes within the Borough. Whilst recent reforms to Council Tax have provided some financial incentive for local authorities (assuming it can be collected) the Bonus scheme also has a positive contribution to make in support of this. The Council would argue that payments should be made on the gross rather than net changes in housing units with no account taken of demolished properties.

Question 8:

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

It could be argued that payments based on a period covering more than one year will be a more accurate reflection of the local authority's sustained performance. Implementing such an approach may raise considerations such as the need for a transition period and the practical implications for the scheme design given it's currently based on a 1 year assessment. See also response to question 15 below.

Question 9:

Do you agree that the baseline should be raised?

No. The Council feels strongly that the baseline should be removed or reduced to Nil. In our previous response to the technical consultation undertaken by the Government in 2016 the Council argued that,

- (i) the proposed baseline would be detrimental to those LPAs that have historically performed well, but are now running out of space or faced with hard to deliver brownfield regeneration sites as their land supply runs out;

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- (ii) the proposal seemingly ties local government income through the NHB to the performance of the wider economy and not the performance of the LPA. It therefore reduces the clear and simple incentive effect of the current reward mechanism, and will eventually discourage housing growth as a result;
- (iii) that the concept of 'deadweight' is misplaced. Planning permission is granted for housing for a number of reasons, the most important being meeting the objectively assessed needs of the area. The incentive of New Homes Bonus is a contributing factor in helping to mitigate the impacts of new housing on local infrastructure, but it will never be the only reason for a housing development to be granted planning permission;
- (iv) the bonus should be paid in relation to numbers of houses that are built or empty homes that are reduced. It is an incentive to reward housing growth and therefore all housing growth should count.

As a Council that has benefitted more from a reduction in empty homes rather than growth in new housing the setting of a national baseline significantly reduces or removes the incentive unless any baseline is set with regard to the circumstances of the local authority. Pendle has experienced housing market failure and is an area generally of low housing demand albeit with pockets of potential development. How does a national baseline reflect this?

The Council was not alone in rejecting the concept of a national baseline. As we have indicated earlier, the majority (80%) of respondents disagreed with the introduction of a national baseline at the time of the 2016 consultation process.

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?

Given the Council's response to question 9 above it follows that we oppose any proposed increase in the baseline. Our view remains that there is no justification for a national baseline.

Given the fundamental issues with the Borough's housing market – low demand, low prices and therefore low development viability, combined with the lack of infrastructure investment in the Borough to both improve connectivity, deal with flood resilience and provide the necessary conditions for housing growth, any increase in the baseline will, more than likely, mean that Pendle will not receive any New Homes Bonus going forward.

By way of example as an indicator of impact, had a baseline of, say, 0.8% been applied in the each of the years since the baseline was introduced, the Council would have received no New Homes Bonus at all.

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It is our view that increasing the baseline is just another device to re-distribute funding away from local authorities like Pendle (with historically low housing growth for the reasons set out above) to places already experiencing high housing growth where the funding is not needed.

Question 11:

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

Our view is that there should not be a baseline. The Government should opt for this given the overwhelming support previously from local authorities to not have a baseline. Indeed, we remain unclear what the point of a consultation question on this matter is in cases where the majority of respondents disagree with a proposal yet the Government proceeds to implement it anyway.

Question 12:

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

The baseline should not be raised but rather be reduced to Nil. If the baseline is increased then it is likely that the Bonus will be 'beyond the reach' of authorities like Pendle with low demand and low development viability. In this scenario the level of payment would not be a material consideration for the Council and the bonus would become linked only, locally, with the development of affordable housing.

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?

The Government seems clear in its intention to reform the Bonus scheme. The Council has consistently argued that the current scheme is flawed and has led to a redistribution of resources from those authorities with greatest 'need' to those authorities with lesser 'need' and who, often by a quirk of geography alone, have benefitted disproportionately.

Any revised payment formula must seek to address the inherent inequality in the current mechanism. A scheme reflecting local authority specific past performance may help with this depending on the scheme design or it could simply compound and lock in the current inequity in the system; i.e. it simply continues to reward those who are and who would continue to benefit from housing growth regardless of the Bonus.

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?

If the scheme is to remain then the Council's position, which it has maintained consistently is that **all** new housing additions should be included in determining the level of bonus. There should be no concept of deadweight or a baseline as with the current scheme nor should demolitions be netted off as part of the eligibility assessment. This latter element once again adversely impacts those authorities with an ageing housing stock which are too often those in former industrial areas and with higher levels of resource 'need' and it inconsistent with the design principles of the scheme. And, for that matter, the majority of Councils do not agree with it.

If the Government is to persist with a baseline then it must not adopt a common baseline and apply this to all local authorities. This simply compounds the inequitable nature of the bonus scheme. Any percentage should be reflective of the circumstances of the individual local authority.

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?

Using a payment formula based on past net addition will, in our view, build into the scheme the inequalities we have referred to above. If such a payment formula is to be adopted then it is considered that a reasonable period of time should be considered given the nature of housing developments and market fluctuations. Ten years may be too long. A period of 5 years would be more reasonable.

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.

It is acknowledged that these are difficult judgements with pros and cons associated with each. On balance the Council leans towards improved performance rather than high housing growth as this is felt fairer and would address some of the problems the Council feels are inherent in the existing scheme. A focus on high housing growth would favour and reward those authorities that already benefit from an active housing market, often simply due to geography rather than local authority stimulus or actions.

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New Homes Bonus must also be seen in the context of the forthcoming changes to the Standard Methodology (SM). The SM now seeks to fix housing growth figures and the ability of Councils to justify higher growth figures based on the SM figure is reduced. It needs to be recognised that the SM figure itself builds in inequalities as it is based on housing figures over a 10 year period. Again for those areas who suffered the greatest in the economic downturn, the fewer houses built translates itself into a lower housing requirement. The cycle of inequality is thus perpetuated and places like Pendle are locked into a cycle of constrained growth.

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?

This appears to repeat question 14 above. Please refer to our response to Q14.

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?

The Government has outlined a preference for a value of "y" significantly greater than the current baseline of 0.4%.

Along with 80% of respondents to the question on the baseline in the last consultation on this matter, the Council does not see the justification for this if such a threshold is to be applied equally to all local authorities regardless of their circumstances. A 'one size, fits all' approach is a blunt instrument and does little to incentivise areas like Pendle where there has been previous housing market failure coupled with ongoing low viability. A high baseline is unlikely to benefit the Council and we will simply suffer the ongoing consequences of local government funding being top-sliced to reward areas that have lesser 'needs'.

Equally, at some point it needs to be recognised that areas of high viability do not have to put as much resources into growth than low demand areas. Low demand areas need to put much more resources into housing delivery so in this respect NHB is a hindrance on improving performance.

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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?

For those areas like Pendle where development viability is an issue to the extent that it is not possible to have Community Infrastructure Levy without arguably affecting the viability of all developments. We would, therefore, agree in principle with this proposal subject to understanding better the details of how it would work. In particular, we are unclear what the Government is proposing as a mechanism for 'balancing the effects of the Infrastructure Levy' and how this will actually happen in practice.

By way of an example in most of the Pendle area, the requirement for affordable housing is zero. This was set by an Independent Planning Inspector. Requiring developers to pay for infrastructure through CIL would render most development unviable. Having other ways of financing infrastructure would be welcomed provided that is not linked to significant delivery increases.

Question 20:

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

As we have indicated earlier in our response, growth in housing development is significantly affected by low demand, low prices and low viability. Rather than incentivising the delivery of new houses in low value areas, these areas need 'gap' funding (could this be funding allocated for New Homes Bonus not paid to areas that have CIL Schemes and directed to low value areas?) to bring forward sites that are, otherwise, consider unviable by the private sector.

Question 21:

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

No.

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 no specific levers other than through the planning system (some Local Authorities have supplementary planning documents for this purpose). But, ultimately, the delivery of homes using modern methods of construction is a matter for Developers and their view of the marketability of such homes. Our experience is that Developers continue to favour traditional methods of construction.

Question 23:

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

No; in our view, the New Homes Bonus Scheme should not be used as a way of driving the delivery of new homes using MMC. Considering the key principles of the Scheme's design – it should be simple to understand, transparent and predictable – introducing another layer of complexity by using it to drive MMC is not, in our view, consistent with the scheme design principles.

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

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?

We are not aware of an existing data source that records the number of new homes built using MMC so collecting the data at the point when the Council signs off a building as habitable is one way of collecting it. Depending on the date on which data is required – information supporting New Homes Bonus is currently taken largely from the Council Tax Base (CTB1) form which is produced on 30th September each year – it could become an onerous task for Local Authorities and would require, in our view, create a New Burdens obligations.

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 (so we have no view on w%)

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Question 27:

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

As indicated above, the delivery of homes using MMC is not necessarily in the gift of local authorities, it is a matter largely for the developer – their ability to build the homes – and the market for such homes.

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. The New Homes Bonus has not, in our view, influenced the delivery of new homes so it is unlikely to influence the delivery of the Local Plan. Again, using the Bonus in this way is not in the spirit in which the principles of the New Homes Bonus was originally introduced.

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%?

See our response to Q28.

Question 30:

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

It is unlikely.