

## DCN Response: The Future of the New Homes Bonus

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### About the District Councils' Network

The District Councils' Network (DCN) is a cross-party member led network of 180 district councils. We are a Special Interest Group of the Local Government Association (LGA) and provide a single voice for district councils within the Local Government Association. District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area.

While New Homes Bonus has reduced substantially over recent years, it remains a very important element of funding for shire districts. While total funding peaked in 2016/17, the grant continued to be worth £201.2m to districts in 2021/22, representing 8.3% of the average district's Core Spending Power in 2021/22. Our key asks summarise the way that we believe the Government should approach reform of New Homes Bonus if it is to remain a powerful and genuine incentive to secure housing growth.

### Key Asks

The 187 District Councils wish to impress on the Government the following critical points;

1. **The New Homes Bonus is an effective and positive incentive** for Local Planning Authorities to deliver the government's desired policy objectives of 300,000 new homes per year.
2. The Government's desired level of housing delivery can only be achieved through local decision making by Local Planning Authorities. The New Homes Bonus scheme must continue, and **Government should honour the final legacy payment allocated in 2019/20 that districts will have planned for.**
3. **We are strongly opposed to any move to adjust the current 80-20 split to favour County councils.** This has no merit – it is shire district councils who hold the statutory responsibility to ensure the delivery of new houses including through the planning system. It would be illogical to allocate a higher proportion of the bonus payments for delivering new housing to county councils that are not the statutory housing or planning authority and therefore carry neither the responsibility nor accountability for delivery.
4. The current 80-20 split has arguably benefitted county councils more than they deserve. This is because 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.

5. 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.
6. Given that shire districts, as local planning authorities, are integral to the successful delivery of new homes, and all the economic and social benefits this generates, the current 80-20 split should be removed, and **the bonus should be awarded only to Local Planning Authorities.**
7. We advocate for an approach that is **much simpler for councils to understand and would see every additional housing unit they secure rewarded. It would be much simpler for Government to administer** than some of the proposals in the consultation paper. One of the simplifications we propose is to remove shire county councils from the scheme, it is a funding stream that amounts to only 0.34% of their core spending power. We recognise that the Government may wish to protect shire county councils even from this very small change and for instance Government could 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.
8. The total funding available through a reformed New Homes Bonus must not be reduced further - it must be maintained at 2021/22 levels, as a minimum. We remind government that the scheme has been funded from the beginning by a top slice of RSG and has not therefore represented additional investment. And yet the bonus should be exactly that – **a true bonus over and above districts’ core spending needs. It should not count towards core spending power.**
9. **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 part of the Settlement Funding Assessment (SFA).
10. This would allow a **return to a 0% threshold, accompanied by a higher payment rate per unit, to incentivise every last house.** It would also fund the Government’s additional premiums proposed for affordable homes, modern methods of construction, and empty homes.
11. Notwithstanding our position above, given the importance of New Homes Bonus for districts’ overall funding, **any reduction to the quantum of funding from current funding levels must be accompanied by transitional funding arrangements.** We welcomed the “Lower Tier Services Grant” for 2021/22 which has acted to smooth the effect of the loss of legacy payments. However as yet, district councils have no certainty as to whether this will be factored into the 2021 Spending Review.

## Rationale

12. The main mechanism through which local authorities can influence housing is the planning system<sup>1</sup>. As the statutory Local Housing and Planning Authorities, districts are better placed than counties to respond to the incentives provided by the scheme. This was recognised by Government in designing the scheme with the vast majority of the bonus being allocated to districts, and no evidence is put forward in this consultation to justify a reduction in what districts receive. Indeed we believe the case for 100% of the bonus to go to districts in shire county areas is overwhelming.

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<sup>1</sup> See for example DCLG, ‘Evaluation of the New Homes Bonus’ (December 2014), p. 11. ([link](#))

13. New housing is often unpopular with residents who may be concerned about pressure on local services, loss of amenities, traffic congestion and other disruption. The New Homes Bonus contributes to visible benefits for local communities and helps to counter resistance to growth in housing. Targeting the NHB at the district level helps to ensure that the benefits accrue to the geographical area where the development takes place.
14. Given the materiality of the New Homes Bonus to districts' overall funding, Government cannot reform the New Homes Bonus in isolation. The planned business rates reset poses another immediate threat to district council funding for 2022-23, and government must consider this when determining next steps on the New Homes Bonus. We are particularly concerned about the combined impact of a reduction in New Homes Bonus combined with a business rates reset in 2022-23. Our analysis indicates that lost business rates revenue gains could be £220.1m. It would therefore seem logical to delay the reset until 2023-24 at the next revaluation. Districts rely on retained business rates growth – it represented 10% of funding on average in 2019/20. Without transitional protections, we fear a real cliff edge for districts from 2022-23.
15. Finally, one of the positives about the NHB scheme has been its simplicity – we would urge government not to pursue a route that increases complexity, and dilutes the scheme, through a series of alternative options which may change year by year for each district authority.

## Consultation questions

### ***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?**

16. Yes. The bonus has had a positive effect, as it has enabled local authorities to be rewarded for stimulating new growth by delivering new planning permissions for housing.
17. In a recent survey, our members told us the New Homes Bonus has:
  - Had a positive impact on their council's behaviours in creating new homes<sup>2</sup> (62% of respondents).
  - Been important or very important in protecting core local services (70% of respondents)
  - Provided additional infrastructure of wider benefit to existing and new communities (56% of respondents)
18. Our members also shared with us some examples of the positive impact that the scheme has had. Including:

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<sup>2</sup> Survey undertaken March 2021, 55 responses received.

- Investing in cultural and leisure facilities, creation of open spaces, delivery of road improvement schemes, delivery of additional industrial sites supporting creation of jobs in areas not being brought forward by the private sector, investment in environmental improvements, new cycleways, and regeneration.
- Providing an enterprise centre to stimulate small businesses.
- Delivering affordable housing
- Funding for local community grants.
- Funding for replacement community assets such as playgrounds.
- Supporting capital projects, including housing developments and regeneration projects. One respondent told us that 'without the New Homes Bonus funding, it would be impossible to maintain the capacity to continue to deliver capital investment locally'.
- Meeting the costs of delivering growth. One respondent told us 'the revenue cost of playing an active role in the development of the Borough is substantial and could not be afforded without the Bonus'.
- Working in partnership on strategic sites with developers to help unblock a variety of planning delivery issues.
- Representing a significant contributing factor to reducing council tax increases
- Protecting core local services against the loss of the Revenue Support Grant

19. The New Homes Bonus scheme was also designed to support local authorities to overcome opposition to new developments locally, by providing them with the tools to address concerns around the provision of infrastructure. Looking at public attitudes to house building, there has been a substantial shift in mindset between 2010 and 2018, with public support for new homes rising from 28% in 2010 to 57% in 2018. Levels of opposition decreased from 46% in 2010 to 23% in 2018. This link was referred to in our survey, with a comment that 'having a clear link between housing growth and funding has led to an acceptance amongst councillors for housing schemes in their localities'.

20. We also remind government that the vast majority of authorities have a Local Plan in place and are seeking to facilitate increased housing growth to support their local communities alongside economic growth. However, there are limits on what local authorities can deliver – both because of local constraints on the availability of land, and natural constraints around the greenbelt for example, as well as relying on private sector developers and Registered Providers to deliver schemes on the land made available through Local Plans. Local authorities grant planning permissions, but have no control over the number of planning permissions subsequently built out. Therefore, market implications and viability play a key role in housing delivery, as do a council's ability to secure land value uplift for essential new infrastructure.

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

21. We would refer you to responses from individual districts.

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

22. Yes. These are:

- The total funding available through a reformed New Homes Bonus must not be reduced further - it must be maintained at 2021/22 levels, as a minimum. And the bonus should be exactly that – a true bonus over and above districts’ core spending needs.
- 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.
- These savings should fund a return to a 0% threshold, accompanied by a higher payment rate per unit, to incentivise every last house. It would also fund the government’s additional premiums proposed for affordable homes, modern methods of construction, and empty homes.
- New Homes Bonus should represent a true bonus rather than redirecting existing funding (noting that NHB is funded through a top-slice of Revenue Support Grant).
- The funding mechanism should provide long-term certainty and stability to support good financial planning
- Reforms should not create unwarranted additional complexities. The simplicity of the current scheme is highly valued.

23. Given the importance of New Homes Bonus for an average district’s overall funding, any reduction to the quantum of funding from current funding levels must be accompanied by transitional funding arrangements.

***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?

24. No. Given that shire districts, as local planning authorities, are the primary mechanism for the successful delivery of new homes, and all the economic and social benefits this generates, the current 80-20 split should be removed, and the scheme should instead solely reward Local Planning Authorities.
25. One of the simplifications we propose is to remove shire county councils from the scheme, for a funding stream that amounts to only 0.34% of their core spending power. We recognise that the Government may wish to protect shire county councils even from this very small change and suggest that 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.

26. It is district councils which are the Local Planning Authorities and hold the levers to bring about housing growth. They are the authorities determining the local plan, engaging with residents and developers, undertaking consultation, bringing forward land. It is district councils that ultimately determine what housing will be delivered, and they have demonstrated their ability to plan and give permission for significant housing growth, with LGA analysis indicating it is the delivery system that is broken, not the planning system, as only 1.5m of the 2.5m homes granted planning permission by councils since 2009-10 have been completed. Meanwhile the number of planning permissions granted for new homes has almost doubled since 2012/13 with councils approving 9 in 10 applications<sup>3</sup>.
27. The critical role of the Local Planning Authority was a point recognised by government in setting up the scheme, and it is our view that this continues to be the case, particularly as government has not provided any evidence to the contrary: *'Lower tier local authorities are better placed to understand local needs and concerns, and this should be reflected in how the bonus is allocated'*<sup>4</sup>
28. County councils already receive 70+% of the average Band D council tax in shire county areas<sup>5</sup> to support the additional costs of new residents and have access to S106 and CIL to support the provision of infrastructure. If this funding is not sufficient, then further infrastructure funding should be sought from other avenues – such as the Infrastructure Bank, Levelling Up Fund and the future UK Shared Prosperity Fund.
29. The current 80-20 split has arguably benefitted county councils more than they deserve. This is because 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.
30. 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.

31. And it is important to recognise that while county council partners fulfil a key role in the provision of infrastructure and wider economic growth, county councils are only one of a range of partners that districts as Local Planning Authorities are working with strategically to bring about the amenities and facilities that communities want to see as part of new housing development. This includes Network Rail, business, and Health.

### ***The affordable housing premium***

<sup>3</sup> <https://www.local.gov.uk/housing-backlog-more-million-homes-planning-permission-not-yet-built>

<sup>4</sup>

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/6004/1846530.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6004/1846530.pdf) para 21

<sup>5</sup> Including adult social care precepts

*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?

32. Yes, but 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.
33. Genuinely affordable housing is sorely needed and delivery should be incentivised. Research by Residential Analysts for the DCN in 2020 shows the vital district council role – with DCN member authorities delivering an increasing share of national affordable homes, from around 30% of the total in the early 1990s to over 40% last year.
34. 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. It should be noted that affordable housing is delivered through a range of interventions including on-site developer contributions, redevelopment of affordable housing schemes etc.

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

35. We believe the premium is too low to act as a true incentive in encouraging more affordable homes. The current system rewards local authorities with higher value payments for the delivery of higher value homes. However, even with an affordable homes premium, the pro-rata payment for affordable homes is still well below the Band D equivalent due to the weighting of Band A and B properties, which is the likely banding of an affordable home.
36. Any increase in the premium should be funded from the savings of (estimated) £221m from the removal of an additional legacy year in 2022-23.
37. We support an increase in the affordable housing premium on the condition that it would not result in a reduction in the reward paid for other net housing additions as part of the NHB scheme.
38. If government is minded to increase the premium, we believe the simplest and most effective approach would be to increase the premium to £606 per affordable home. This would have the immediate effect of increasing the overall payment for a Band A property to that of a Band D (£1,818).

**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?

39. Yes but as an extension to the quantum of the main scheme, rather than reducing the overall funding levels from the main scheme.

***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?

40. Most recent three years. The baseline should be removed and certainly not increased. However, should government proceed with a baseline, the bonus must be based on the average of past growth that is eligible for the bonus rather than a simple average of total past growth. This would be necessary to ensure that local authorities were not penalised relative to the current scheme and over time would take into account our preferred position that the threshold should be removed and all net housing growth rewarded.
41. 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 is important to note that housing delivery only takes place in partnership with private sector developers and landowners in the context of Local Plans and planning consents. District Councils require an incentive over the longer-term in order to maintain the momentum of meeting local community needs.
42. 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. This means any error in forecasting the following year's housing growth would carry less weight when projecting next year's NHB 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. In other words, if the housing stock has risen by 0.3% since the previous year, no Bonus is payable, whereas, if it has grown by 0.5%, Bonus is payable in respect of 0.1% housing growth.*

*The government now seeks views on possible reforms to the threshold for payment of the Bonus.*

**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.*

**Option A: Raising the baseline percentage**

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

43. No. We strongly oppose raising the baseline and believe that it should be removed altogether if the Government wishes to achieve growth of 300,000 units a year. Increasing the baseline simply reduces the number of authorities which benefit from the grant and this is not to our minds a sustainable long-term position. That approach would entrench the policy of rewarding growth over funding 'needs'<sup>6</sup> and we cannot support it. It also goes against the principle of simplicity, by introducing a subjective judgment regarding where an incentive begins, that takes no account of the local context.
44. Current economic conditions are making it more difficult for authorities to reach the existing 0.4% baseline. For example, 23% of districts were below the baseline in 2021/22, up from only 5% in 2020/21. Increasing the baseline during an economic downturn could put the threshold too far out of reach of the hardest hit areas, weakening the incentives for housing growth rather than sharpening them.
45. In the longer term, our concerns with raising the threshold are that this does not take into account various constraints faced by authorities – ranging from green belt constraints, to already highly developed urban areas. We are concerned that raising the baseline will act as a major disincentive for authorities to continue supporting housing delivery over time.
46. We also point out that the consultation provides no justification or rationale for raising the baseline percentage. The baseline was first introduced in 2017, despite widespread opposition, with 80% of respondents to the consultation disagreeing with the approach<sup>7</sup>. This change alone amounted to a £45 million reduction of NHB allocations for district councils in 2017/18 (when compared to the previous year forecasts). The figure of 0.4% appeared to be arbitrary at the time - no evidence was provided as to how this figure was reached – the actual consultation raised the prospect of a 0.25% baseline rate.

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<sup>6</sup> <https://www.themj.co.uk/The-search-for-answers-on-housing-delivery/219849>

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/577904/NHB\\_Consultation\\_Response\\_Doc.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577904/NHB_Consultation_Response_Doc.pdf)

47. Once again, the government is proposing further arbitrary increases, with no justification or explanation as to how they have been reached. Instead of seeking to increase the current threshold, the DCN is calling for the threshold of 0.4% to be removed – particularly in light of the impact on construction caused by the Covid pandemic.
48. 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

**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?

49. We do not support any increase to the baseline. See response to Q9.

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

50. As set out above, the baseline should not be raised but should actually be removed alongside an increase in the reward per unit.
51. District Councils are very concerned that this is a major dis-incentive for authorities to continue supporting housing delivery because the more houses built in previous years, the greater the size of the existing housing stock and therefore the more unlikely that future Bonus payments will be secured. It would probably also mean that those authorities made up of larger settlements and urban areas, where there are limits on growth because of tight administrative boundaries, would be less likely to qualify. This does not align with the Government seeking to increase housing delivery on previously developed land in urban areas rather than greenfield locations, nor the approach of proposed changes to permitted development rights to increase housing delivery. Furthermore local authorities with smaller existing housing stock may reflect on the future implications of housing delivery and choose to be less engaging in making land supply available.
52. We are very concerned that raising the baseline will result in very few authorities achieving a bonus. This is likely to lead to serious financial resilience issues should these changes not be 'dampened' with some form of transitional funding to smooth the effect of the changes – particularly when coupled with the loss of legacy payments – and factoring in the very challenging financial context arising from the pandemic.
53. 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?

54. We strongly oppose raising the baseline. The baseline should not be raised as this will entrench the bonus into a few authorities, rather than rewarding all authorities fairly. As set out above, the baseline should be removed alongside an increase in the reward per unit.

55. Given the importance of New Homes Bonus for districts' overall resources, on average, any reduction to the quantum of funding from current funding levels as a result of raising the baseline or other changes would have to be accompanied by transitional funding arrangements.

**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 to use 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?

56. We would refer you to responses from individual districts.

**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?

57. If such a formula was to be introduced, then lower values of  $x$  would be better.

58. A value of  $x$  of around 40% would have delivered the same amount of NHB funding in 2021/22; that is, would have been revenue neutral. This could serve as the ceiling for any value of  $x$ .

59. Higher values of  $x$  could undermine incentives. This is because authorities receive no reward for any net additions below the baseline. A local authority may not be in a position to achieve  $x\%$  of its past housing growth due to factors outside of its control, such as a weak regional economy. Such an authority would have no incentives under the scheme to make marginal improvements to its housing stock if wider economic factors meant it was unlikely to reach the threshold.

**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?

60. As set out above, the DCN does not support a payment formula which undermines the key incentives for district councils to deliver increased housing growth over the long term.

**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.

61. We are concerned that changes such as these would add unnecessary complexity and would prefer a simple system that rewarded all net growth with no baseline. If the Government proceeds with these aspects of the proposals, in our view **x** and **y** should be set at levels that would have delivered at least the same level of Bonus funding as in 2021/22. Otherwise, this would diminish the incentives provided by the scheme.

62. 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?

63. See 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?

64. See question 16.

*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?

65. No, we do not support this option.

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

66. The main disadvantage is that it 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.

67. Whilst in theory repurposing the Bonus to balance the effects of the Infrastructure Levy to provide an incentive to lower value areas may seem advantageous, it is important to consider the implications of this approach:

- a. Firstly, the Bonus and contributions from the Infrastructure Levy will only be secured when housing delivery is achieved.
- b. Secondly, in the meantime, local authorities have to borrow to deliver essential infrastructure for new development. Some district councils in areas of lower land values may find the associated financial risks too high.

68. It is important to note that both higher and lower value areas may well have a complex planning environment due to environmental constraints, lower market demand or viability challenges, leading to District Councils continuing to be penalised through no Bonus payments making it more difficult to support new housing. Whilst changes to permitted development rights may well increase housing delivery for some District Councils in the short term, as previously shared this initiative will have potentially serious consequences for longer term economic stability and infrastructure provision aimed at being supported through the Infrastructure Levy.

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

69. Yes, except the Government should remove the baseline for the bonus and award 100% of the bonus to local planning authorities, pending consideration of any further reform. District Councils would need to consider the implications of primary

legislation to deliver the Infrastructure Levy together with the related mechanisms ahead of providing a definitive view on the future support achieved.

*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?

70. There are a range of approaches to deliver Modern Methods of Construction through new development schemes which need to be carefully considered in the local context by District Councils, not least due to the Government's proposals for local design codes and community engagement in the existing / new planning system. Whilst local authorities are able to encourage MMC through new Local Plan policies, if it is considered appropriate in their local areas, the delivery of new homes through these methods will depend on house builders and market conditions rather than local authorities.

***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.

71. No, we do not support this option because there is currently insufficient local authority control, and this would further dilute and complicate the scheme.

72. Whilst a premium for new homes built using MMC could incentivise District Councils to seek to supply more housing land for delivery, such an initiative may well disadvantage certain local authorities due to local character being protected, environmental designations and viability challenges

73. We would suggest that new properties should meet the appropriate design standards which are moving in the direction of low carbon, and do not consider that the specific construction methodology is one that should be incentivised over affordable housing or other methods to deliver net zero.

**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?

74. We would refer you to responses from individual districts.

**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?

75. 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.

**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?

76. No, we do not support this option.

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

77. The DCN do not consider that this condition should be imposed on District Councils due to the factors previously mentioned including local character, market conditions and circumstances such as environmental and design issues. It is not currently in a local authority’s gift to require MMC.

*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?

78. No. We cannot accept this proposal as there are too many instances where councils see their Local Plans delayed for reasons beyond their control – such as delays of many months or even years caused by the Planning Inspectorate.

79. The vast majority of authorities have a Local Plan in place and are seeking to facilitate increased housing growth to support their local communities alongside economic growth. However, there are limits on what local authorities can deliver – both because of local constraints on the availability of land, and natural constraints around the greenbelt for example, as well as the relying on private sector developers to deliver schemes on the land made available through Local Plans as well as Registered Providers. Local authorities can grant planning permissions, but have no control over the number of planning permissions subsequently built out. Therefore, market implications and viability play a key role in housing delivery, as do a council's ability to secure land value uplift for essential new infrastructure.

80. Government has previously proposed linking payments to the local plan and will therefore know that the vast majority of local authorities disagree with this approach. In 2017, 83% of local authorities responding to the consultation disagreed with this proposal, noting the risk of penalising councils where the Local Plan is delayed due to factors outside the council's control. Moreover the absence of a Local Plan does not necessarily equate to poor housing growth and is not necessarily attributable to inaction or fault on behalf of the local authority<sup>8</sup>. We also have concerns that councils may be forced to rush their plan preparation in order to meet this arbitrary target.

**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%?

81. No, we disagree with this option.

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

82. We would refer you to responses from individual districts.

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<sup>8</sup> Government response to the NHB consultation 2017 :  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/577904/NHB\\_Consultation\\_Response\\_Doc.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/577904/NHB_Consultation_Response_Doc.pdf)