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# THE FUTURE OF THE NEW HOMES BONUS CONSULTATION – **NHC RESPONSE**



## About Us

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England. We are the 'Voice of Housing in the North' working with both local authorities and housing associations to advance the cause of housing. Our membership covers over 95% of all Northern social housing providers. The NHC brings its members together to share ideas, and to represent their interests and to ensure they are heard at a regional and national government level.

## Summary of Key Messages

While changes to the New Homes Bonus have reduced its value substantially over recent years, it remains a very important element of funding for councils. Our response supports an approach to the New Homes Bonus which would allow it to remain a genuine incentive to secure housing growth in the North and enable the Bonus to contribute to Government's levelling-up ambitions.

- **The New Homes Bonus scheme must continue.** Local authority funding has been transformed since 2010, both in terms of reduced central government funding available to deliver services and in the way that funding has been allocated. NHB allocations have helped to mitigate these reductions and we believe the proposals could put this funding stream at risk for many councils in the North. Despite the introduction of the NHB, spending on housing and related services has reduced substantially over the last decade, particularly in the North. Research carried out in 2019 showed that the change in net spend per local authority in England between 2010/11 and 2018/19 stood at -34% for housing services and -50% for planning and development services. This loss in capacity for local authorities in the North was even greater with at -54% for housing and -65% for planning and development<sup>1</sup>. Our concern is that without the ability of housing teams to generate revenue through the incentive of the New Homes Bonus, further reductions in capacity may occur.
- **The pre-existing scheme and four years of payments should continue, without change.** The total funding available through a reformed scheme must not be reduced further - it must be maintained at 2021/22 levels, as a minimum.
- **Weighting of Bonus payments.** It is our view that, as the authority with greatest responsibility for housing and planning, that it is right the NHB goes predominately to District Councils, who can take decisions closer to the citizen than County Councils. The current 80/20 split meets this requirement and should be maintained.
- **An increased national percentage baseline could place Northern councils' financial sustainability at increased risk; contradicting Government's ambitions to 'level-up'.** Our preference would be for the threshold of 0.4% to be removed, or at least kept static, particularly in light of the impact on construction caused by the Covid pandemic. Alternative options should be explored which could include reform of the Bonus with a return to a 0% threshold, accompanied by a higher payment rate per unit.
- **Repurposing the Bonus to balance the effects of the Infrastructure Levy.** Compared to the sums currently being generated through planning obligations, even if the total budget in the North for the New Homes Bonus £296m (2020/21) were focused on low land value areas, it would not be enough to 'balance' the receipts possible from the Levy in higher value areas. This proposal could lead to significant regional differences between LPAs with

<sup>1</sup> NHC (2019), Time to Level-Up: Local Authority Housing and Planning Capacity in the North of England. Available at: <https://www.northern-consortium.org.uk/influencing/ournorth/local-authority-capacity/?highlight=local%20authority%20capacity>

higher value / lower affordability and areas in the North with lower land values and significant batches of land below the proposed minimum threshold.

- **Local Plans.** Introducing further layers such as local plan progress into the NHB scheme would only complicate matters unnecessarily. Local authorities grant planning permissions but have no control over the number of planning permissions subsequently built out. Market implications and viability play a key role in housing delivery, as does the ability to secure land value uplift for essential new infrastructure.
- **Fair Funding.** Local government has undergone a sustained and significant reduction in total funding, and it is important that the funding available through a reformed New Homes Bonus is not reduced further. It must be maintained at 2021/22 levels, as a minimum. The Bonus should be true to its name – a ‘bonus’ source of funding in addition to councils’ core spending needs. Councils in London and the south receive significantly more Bonus than councils in the North, driven both by differences in the rate of housing development that is possible and by lower receipts per property in the North. We note that the Government is to retain the top-slice of Revenue Support Grant to fund New Homes Bonus in 2020/21 at £900 million. We believe the bonus should be funded from outside the settlement.

The lack of certainty about New Homes Bonus makes it difficult to plan effectively. This risks putting the brakes on housebuilding schemes and growth-boosting projects at a time when the housing shortage is one of the biggest challenges facing the nation and it could further exacerbate the financial challenges facing some councils, particularly those in areas that have made the decision to go for higher levels of growth. Even with the New Homes Bonus, the cost of delivering services to new homes is not met in full. We therefore urge the Government to publish its proposals for incentivising housing growth in the future as soon as possible.

Our detailed answers to the consultation questions are set out below.

## **The efficacy of the current Bonus**

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

### **Yes**

The New Homes Bonus (NHB) has been a positive incentive for Local Planning Authorities to deliver the Government’s target of 300,000 new homes per year.

The NHB has become an increasingly significant funding stream and has had a positive effect in making planning for housing a revenue-generating activity within local authorities at a time of constrained funding. This inevitably leads to local authorities having to be mindful of the structure of the scheme when planning for growth. Northern councils are ambitious when it comes to housing growth: Table 1 shows the positive levels of existing delivery against the housing delivery test in Northern authorities.

**Table 1 Housing Delivery Test 2020 Measurement**

	Total homes required	Total Homes delivered	Housing delivery Test Measurement
North East	18178	30212	166%
North West	59131	90576	153%
Yorkshire & Humber	47645	60924	128%

NHC analysis Housing Delivery Test data

For residents and communities, the Bonus is a way of investing in infrastructure and demonstrating the positive side of development. When the NHB was launched in 2011, a Northern Housing Consortium commissioned survey explored public and professional attitudes to different types of housing development and the New Homes Bonus<sup>2</sup>. At that time, the concept of the NHB made little difference to the majority of respondents for either the public or professionals although the concept proved more successful when respondents were considering the development of affordable housing. Both nationally and across the North, respondents said that knowing their local authority received extra funding from Government would make them more likely to support the development of affordable housing. The NHB is also effective at driving support for bringing empty homes back into use.

It is more difficult to measure the impact on decision-making; both strategic and at individual planning decision level. Required levels of housing delivery can only be achieved through local decision making by Local Planning Authorities.

After 10 years of operation, the NHB has become an established part of the funding and planning landscape. It is demonstrating more evidence of acting as an incentive to deliver increased housing growth and it should therefore continue to encourage and support growth. It is important however that the NHB remains only an incentive to deliver growth, and that planning reforms allow for high-quality place-making without the need for local authorities to become reliant on the NHB without recourse to other sources of funding for good growth.

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

Not applicable

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

**Yes - we are concerned that the proposed changes could have an adverse impact going forward and place a number of councils' financial sustainability and the services they provide at risk.**

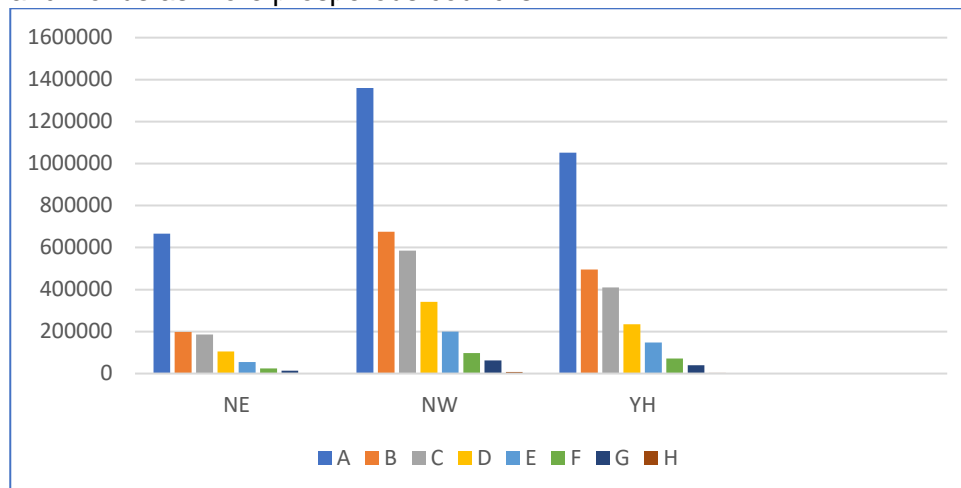
- The total funding available through a reformed scheme must not be reduced further - it must be maintained at 2021/22 levels, as a minimum.
- The bonus should take the form of funding over and above councils' core spending needs rather than redirecting existing funding through a top-slice of Revenue Support Grant. A top-slice from the settlement funding to fund the NHB disadvantages higher need authorities, many of which are in Northern regions.

<sup>2</sup> NHC (2011), New Homes Bonus: Risks and Opportunities for the North. Available at: [https://issuu.com/northernhousingconsortium/docs/new\\_homes\\_bonus\\_final](https://issuu.com/northernhousingconsortium/docs/new_homes_bonus_final)



- Savings made from the removal of an additional year of legacy payments from 2022-23 should be retained by Government within a reformed bonus and used to fund a return to a 0% threshold, accompanied by a higher payment rate per unit. This would also fund additional premiums proposed for affordable homes, modern methods of construction, and empty homes.
- The Bonus should be paid for four years, returning to the legacy payment arrangement for 2018/19. A return to the four-year payments would build back the 'predictability' element that the Bonus intended to introduce and allow councils to plan for this in future budgets. Almost 90% of North's housing stock falls between Council Tax Bands A to C (see Figure 1), with the majority in all Northern regions in Band A, which attracts only 67% of the funding that a Band D property does. This skews the Bonus in favour of areas with higher tax bases, with each additional new home receiving more in some areas than in others. Generally, payments have been higher in southern regions than Northern regions, reflecting these higher payments per property.

**Figure 1 Distribution of Council Tax Bands.** In Northern Regions this is skewed towards lower bands, meaning more houses must be built to earn the same amount of Council Tax and Bonus as more prosperous councils.



## The split in two-tier areas

**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?**

This is a question on which county and district authorities will have different views, but it seems appropriate that the incentive for growth is weighted in favour of councils that are responsible for delivering that growth and where the planning decision sits. The County Council role is more limited to that of advising and supporting in terms of the delivery of the infrastructure for which they are responsible.

The appropriateness also depends on the extent to which the NHB can be evidenced as providing an effective incentive to district councils to facilitate housing development, and whether it is those councils with planning responsibilities which are the most important to incentivise.

It is our view that, as the authority with greatest responsibility for housing and planning, that it is right the NHB is weighted to district councils and that the current 80/20 split meets this requirement and should be maintained.

In our own research, we referenced this ‘two-tier tension’ but as it is the lower-tier council which holds the primary housing and planning functions, the weighting of their payment should be significantly higher. They also take on the political risk of granting planning permission for developments.<sup>3</sup> The 20% allowance for the higher-tier authority provides some reflection of their role in influencing local economic development and makes a contribution to the cost of services they provide to new residents.

## **The affordable housing premium**

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

#### **Yes**

Our research has shown that both professional and public attitudes to the NHB most strongly supported incentivising affordable housing development.<sup>4</sup>

We support the view of the District Councils’ Network in their NHB submission that, *“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.”*<sup>5</sup>

A scheme such as NHB, based on the council tax band of the new property means that the higher the band the larger the bonus yet building higher banded housing may not accord with local needs. With affordable homes typically falling into lower bands, the premium is therefore a welcome supplement that goes some way to equalising the payment received for an affordable home with those of other tenures.

20,000 affordable homes are needed across the North each year and there would be benefit from more investment in affordable housing. Retaining the premium would demonstrate a commitment to the delivery of homes across all tenures, including social rent, intermediate rent and low-cost home ownership (through affordable home ownership schemes such as shared ownership).

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

#### **Increased**

The £350 affordable housing premium per home has remained at the same level since 2010. The current payment is not significant enough to provide a ‘powerful incentive’ especially since the legacy payments have been removed and is too low to act as a true incentive in encouraging more affordable homes.

Any increase in the premium should be funded from the savings from the removal of an additional legacy year in 2022-23. 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.

<sup>3</sup> NHC (2011), New Homes Bonus: Risks and Opportunities for the North. Available at: [https://issuu.com/northernhousingconsortium/docs/new\\_homes\\_bonus\\_final](https://issuu.com/northernhousingconsortium/docs/new_homes_bonus_final)

<sup>4</sup> NHC (2011), New Homes Bonus: Risks and Opportunities for the North. Available at: [https://issuu.com/northernhousingconsortium/docs/new\\_homes\\_bonus\\_final](https://issuu.com/northernhousingconsortium/docs/new_homes_bonus_final)

<sup>5</sup> District Councils’ Network response ‘The Future of the New Homes Bonus’ 2021



The pro-rata payment for affordable homes is well below the Band D equivalent due to the weighting of Band A and B properties (at 67% and 78% of Band D, respectively). These are the bands affordable homes are likely to fall in. Many authorities have encouraged the building of low cost homes in the A–B bands, however due to the grant being based on band D equivalents, see limited NHB benefit even though it is supposed to reward growth in housing numbers.

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 affordable property to that of a Band D property (£1,818).

## **Empty Homes**

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

**Yes** - the NHB should continue to form part of a strategy to bring empty homes back into use.

When the NHB was first introduced, the Bonus scheme, combined with empty home programmes, meant local authorities were able to bring a significant number of long-term empty homes back into use. The remaining long-term empty properties are more difficult to bring back into use due to owner resistance or other factors.

Since the specific empty homes programmes run by Government ceased, the number of empty homes has begun to rise again, and of the 10 locations in the UK having the highest percentage of empty homes, 8 are located in the North with Blackpool having the highest proportion of empty homes at 5.47%.<sup>6</sup>

Our own research shows that bringing empty homes back into use is one of the most effective tools in driving support for new developments amongst the public.<sup>7</sup>

The financial incentive should not only continue but potentially be increased to compensate for the fact that the remaining properties that have been empty for many years are more challenging and should be an extension to the main scheme, rather than reducing the overall funding levels from the main scheme.

## **Time period on which payments are based**

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

#### **3 years**

While basing the bonus on each year's delivery is the simplest option, we feel that using a 3 year average will reward consistent delivery, and takes into account that delivery of housing

<sup>6</sup> Action on Empty Homes (2020), 'Massive 20% rise in empty homes up over 42,000 to 268,385 while 100,000 families are stuck in Temporary Accommodation'. Available: <https://www.actiononemptyhomes.org/news/massive-20-rise-in-empty-homes-up-over-42000-to-268385-while-100000-families-are-stuck-in-temporary-accommodation>

<sup>7</sup> NHC (2011), New Homes Bonus: Risks and Opportunities for the North. Available at: [https://issuu.com/northernhousingconsortium/docs/new\\_homes\\_bonus\\_final](https://issuu.com/northernhousingconsortium/docs/new_homes_bonus_final)

development can be uneven reflecting economic downturns and other events (such as the pandemic) which are not within a local authority's direct control.

Our preference would be for the baseline to be removed and certainly not increased, but should the baseline continue, we would prefer an average of past growth to be eligible for the bonus. This would still meet the Government's objective of being 'simple in terms of understanding and implementation'.

It would also have the positive effect once legacy payments are phased out of increasing predictability in terms of expected future funding, which was one of the five key principles of the policy when it was introduced.

This would mitigate the financial implications of year-on-year fluctuation in housing delivery, as seen last year with housebuilding disrupted by the pandemic where starts on site were down by 38% and completions down by 25% compared with the same period the previous year.<sup>8</sup>

## **Changes to the threshold for payment**

### **Option A**

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

##### **No**

0.4% is already a challenging target. Increasing the target risks eliminating the incentive altogether, which would be counter-productive, particularly for areas where there are barriers to development.

The approach proposed in Option A of the consultation document would result in a reduction of NHB annual payments across England unless this is combined with an increased payment rate to ensure the overall payment of NHB across England is maintained at its current level. Raising the baseline threshold payment would need to be implemented with a higher payment rate.

In July 2018 The All Party Parliamentary Group for District Councils published its inquiry into District Council Finances and commented that "The introduction of the 0.4% baseline threshold for the New Homes Bonus removed funding of over £70m from district councils in 2017-18."<sup>9</sup>

Districts were asked to set out what impact the introduction of a 0.4% threshold has had on their financial situation since 2017/18 and responses included:

*"Devastating. A huge source of income for us meaning a reduction in our capital programme funding and we're having to resort to borrowing where possible."*

*"Significant impact which has resulted in excess of £0.5m less over last 2 years. We have to build in excess of 204 new homes before we qualify for NHB - a difficult target for an urban authority with closely drawn boundaries with our rural neighbours."*

<sup>8</sup> Homes England (2020), 'Statistics show overall housing starts down, reflecting the impact of Covid-19 on housebuilding', Available: <https://www.gov.uk/government/news/new-homes-england-statistics-show-overall-housing-starts-down-reflecting-the-impact-of-covid-19-on-housebuilding>

<sup>9</sup> [APPG District Councils Delivering the District Difference July 2018](#)



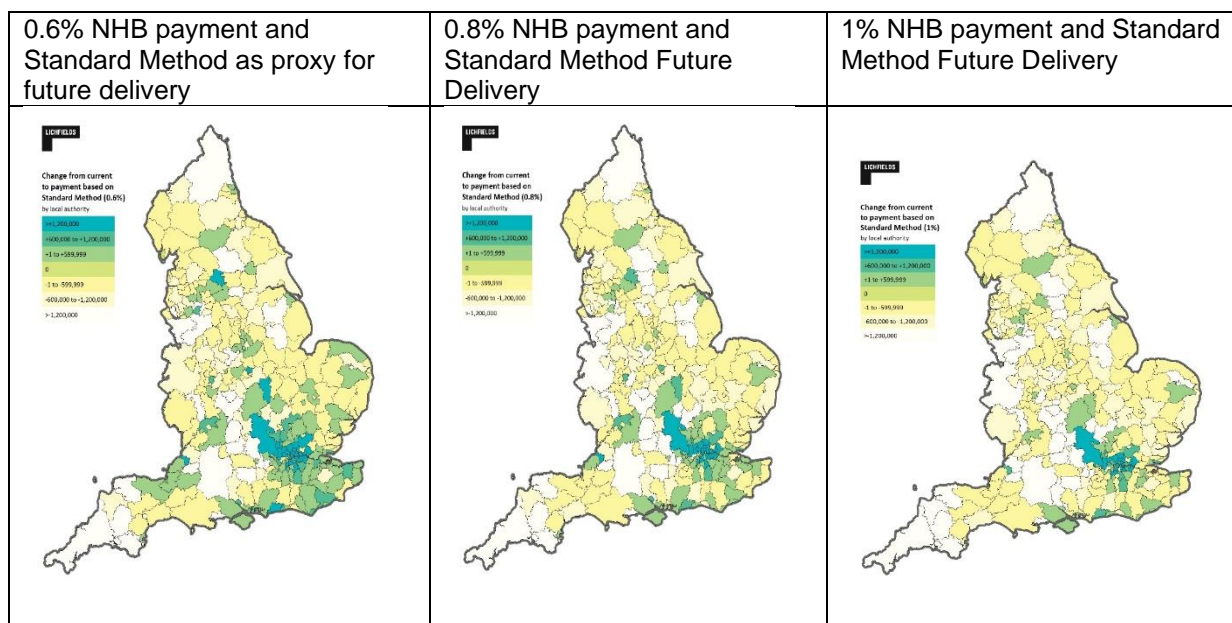
The District Councils' Network told the APPG that “23% of districts were below the baseline in 2021/22, up from only 5% in 2020/21. Increasing the baseline during an economic downturn could put the threshold too far out of reach of the hardest hit areas, weakening the incentives for housing growth rather than sharpening them.”

The NHC worked with Homes for the North (H4N)<sup>10</sup> to commission new analysis of the options proposed and the potential impact of each proposal on Northern housing providers so that we are able to provide a considered response to each of the options.

Derived from that research, Figure 2 highlights how the proportion of NHB annual payment would decrease in the North as the threshold upon which the payment is based increases. As can be seen, the annual NHB payment would change under the proposed approach, based on the Standard Method as a proxy for future delivery, as the proportion of payment is increased from the current baseline of 0.4% to 1%.

This highlights that if the baseline is raised, annual payments would significantly reduce across the North, with the balance of payments of NHB more heavily concentrated in the South. This is inconsistent with the Government's levelling-up ambitions; and is influenced by the methodology underpinning the Standard Method which results in greater levels of local housing need being identified by the Standard Method in the South compared to the North.

**Figure 2 NHB Payment across proposed baseline levels**



Analysis by Lichfields commissioned by NHC and H4N

We cannot support any further increase to the baseline and we believe this has the following drawbacks for Northern authorities:

- Councils need as much certainty as possible about their future funding and arbitrary adjustments, introduced part way through what had been assumed to be stable arrangements will reduce the incentive effect of the Bonus.
- The scope for housing growth might vary from area to area for reasons that are not connected with a local authority's willingness to see such growth.

<sup>10</sup> Homes for the North, an alliance of the largest developing housing associations in the North of England

- It is important is that a baseline does not penalise those local authorities that have embraced housing growth and delivered the most homes. Table 2 shows the changing balance of payments of NHB across the proposed thresholds.
- Increasing the baseline is likely to remove any ongoing benefit from the Bonus entirely once current legacy payments are phased out.
- A raised baseline would be detrimental to those local authorities that have historically performed well but are now facing development barriers such as land supply with hard to deliver brownfield regeneration sites.
- Local authorities that have grown at the greatest rate in recent years would have the biggest reduction in Bonus. This will significantly reduce or remove the incentive for well-performing authorities and reward those who have failed to deliver in recent years.

**Table 2 Balance of payments of NHB across the proposed thresholds**

	Current Year NHB Payments 2020/21	NHB Annual Payment based on 0.4% (current level)	NHB Annual Payment based on 0.6%	NHB Annual Payment based on 0.8%	NHB Annual Payment based on 1%
North	26%	10%	7%	6%	3%
South	74%	90%	93%	94%	97%

Source: Lichfields Analysis for NHC / H4N

If the higher level of 1% was used, then this would significantly reduce the number of local authorities able to qualify for any reward given that nationally housing growth was around 1% in the last year.<sup>11</sup>

Our preference would be for the threshold of 0.4% to be removed, or at the very least retained, particularly in light of the impact on construction caused by the Covid pandemic. An alternative should be explored which reforms the Bonus with the option of 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?**

We do not support the baseline being raised (see question 9).

Raising the baseline could act as a disincentive for those authorities unable to meet the raised threshold due to factors which are likely to be outside of their control.

If the baseline is raised, the rise should be as small as possible. Any 'saving' arising from a change to the Bonus mechanism that results in a reduction in the amount of Bonus paid, must be returned to the local government funding settlement and redistributed, given that the Bonus is currently top sliced from the Revenue Support Grant.

A revised system must recognise and reward housing growth and make the greater payments to those delivering the most houses.

**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).**

<sup>11</sup> MHCLG Housing supply: indicators of new supply, England: October to December 2020



**Alternatively, the same payment rate could be maintained (in which case total funding would fall).**

We do not agree with the proposal to increase the baseline.

The scheme should remain an incentive for those authorities who may not be able to deliver significantly higher growth. Rewarding only those authorities who can deliver significant growth (typically through use of greenfield sites) does not align with the Government seeking to increase housing delivery on previously developed land in urban areas, through welcome initiatives like the Brownfield Housing Fund.

We are very concerned that raising the baseline will result in fewer authorities securing a Bonus payment. This is likely to lead to serious financial resilience issues should these changes not be offset 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.

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

We do not support an increase in the baseline.

If it was to increase, then we would support the introduction of a higher payment rate. Option A is the most transparent and simple of the three proposals in that it rewards all authorities who deliver growth above a national baseline and that conforms to one of the Government's objective of being 'simple in terms of understanding and implementation'. However, the consultation document sets out no compelling reasons for a change to be made to the baseline. 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 to make no changes to the baseline.

**Option B Rewarding improvement: setting the payment threshold by reference to a local authority's past performance.**

**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?**

We believe that this option reduces the incentive for those authorities that have delivered significant housing growth in the past, as it would give a reward to an authority that has delivered no growth in the past, but now delivers a minor growth of say 0.2% as opposed to incentivising an authority that has delivered 1.5% growth in the past, to continue to deliver high level of growth of say 1.5%.

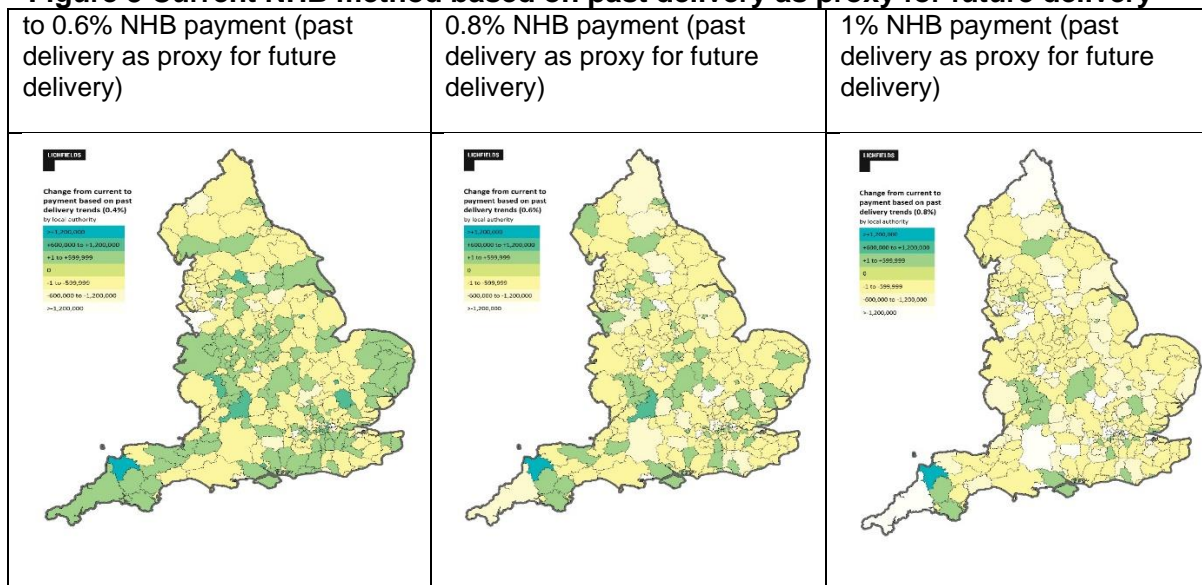
This formula would go against the Government's objective of being 'simple in terms of understanding and implementation.'

Figure 3 highlights how the annual NHB payment would change under the proposed approach, based on past trends in delivery (3 year average taken from the HDT), as the proportion of payment was increased from the current level of 0.4% to 1%. Table 3 highlights how the proportion of NHB annual payment would decrease in the North as the threshold upon which the payment is based increases.

The analysis, commissioned by the NHC and H4N, highlights there would be a reduction in the level of NHB annual payments paid to LPAs in the North if the methodology

underpinning the payment of NHB moves away from the current level of 0.4%. Once again, this would run contrary to Government's objectives to 'level-up'.

**Figure 3 Current NHB method based on past delivery as proxy for future delivery**



Source Lichfields analysis for NHC / H4N

**Table 3. Changing balance of payments of NHB based on past delivery as a proxy for future delivery (includes affordable delivery)**

	Current Year NHB Payments 2020/21	NHB Annual Payment based on 0.4% (current level)	NHB Annual Payment based on 0.6%	NHB Annual Payment based on 0.8%	NHB Annual Payment based on 1%
North	26%	17%	17%	15%	13%
South	74%	83%	83%	85%	87%

Source: Lichfields Analysis for NHC / H4N

**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?**

We do not agree that the payment formula should be adopted.

This 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 councils that have played an important role in boosting housing supply over the past decade.

If such a formula were introduced, then lower values of x would be preferable. Higher values of x could undermine incentives 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 an inability to repeat a large-scale housing growth project; or 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?**

We do not accept that such a payment formula should be adopted.

If such a formula were introduced, any period would need to reflect the length of the economic cycle, which may well be longer than 5 years. A period of 10 years could be used in order to take account of the changing economic cycles that occur in the housing market despite land supply being available. Any shorter timescale would severely disadvantage councils due to the implications of the housing market arising from the Covid pandemic.

Analysis of past housing delivery highlights that in the North over the last 5 years the number of homes delivered on average has been 0.8% of stock, this increases to 1% in the South. Based on 10-year trends net additions have on average resulted in an increase in stock of 0.6% in the North and 1.3% in the South. This suggests a 10-year past trend period would be more favourable for the North.

In terms of year on year change in the net additions delivered across the North, this varies from an average increase of 3% to 65% over the last 10-years. On average across the past 5 years net additions year on year have increased by 37% across the North.

In order to award positive housing growth, if this proposal is taken forward, it is recommended that a 10-year trend would be an appropriate time period to consider average past performance and perhaps any growth above 10% of past delivery year on year could result in a greater NHB reward across the North.

## **Option C A hybrid approach: rewarding improvement and high housing growth**

**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**

This would add unnecessary complexity rather than a simple system that rewards all net growth with no baseline.

The NHB scheme is based on a simple calculation of housing supply performance. This change is not justified and would pose a risk to the financial sustainability of councils which have played an important role in boosting housing supply over the past decade.

**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?**

If the Government proceeds with this proposal, in our view x should be set at a level 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.

Excessively high percentage levels 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 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?**

We do not accept that such a payment formula should be adopted. However, if this approach was adopted our preference is for y to be no higher than 0.4%.

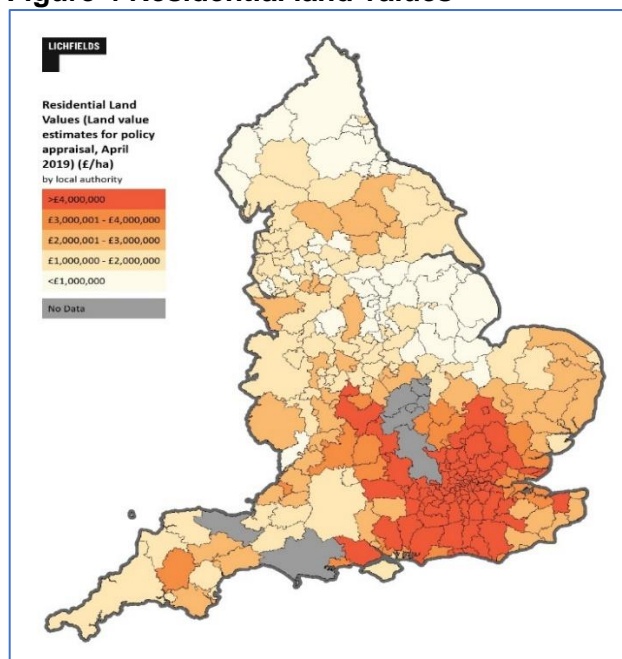
## **Option D Repurposing the Bonus to support infrastructure investment in areas with low land values**

**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?**

**No – we are supportive of efforts to rebalance investment, but on the basis of the information that is currently available, we do not see that the proposal will balance the effects of the Infrastructure Levy.**

Figure 4 shows residential land values and highlights these are significantly higher in the South, particularly London and around the adjoining areas, compared to values across the North. Whilst Government has yet to bring forward detailed proposals for the Infrastructure Levy, we would expect that receipts from the Levy will follow a similar geographical distribution to land values. This is implicit in the consultation's acceptance that the effects of the levy will need to be 'balanced' to meet infrastructure needs in lower value areas. The current system of planning obligations delivers a similar distribution, with receipts in the south being £3.6bn and in the North £931m.

**Figure 4 Residential land values**



London and the South East receive 26% of the value of planning obligations (£3.6bn) with the distribution of the value of planning obligations to the three Northern regions just 4.6%

(£931m).<sup>12</sup> This means that NHB allocations of £176m plus £120m legacy payments in 2020-21, plus planning obligations of £931m, would not rebalance the gap between lower value areas and higher value payments.<sup>13</sup>

Our concern is that compared to the sums currently being generated through planning obligations, even if the total budget for the New Homes Bonus £296m (2020/21) were focused on low land value areas, it would not be enough to 'balance' the receipts possible from the Levy in higher value areas. This proposal could lead to significant regional differences between LPAs with higher value / lower affordability and areas in the North with lower land values and significant batches of land below the proposed minimum threshold.

The need for new homes and the issues related to developer contribution income are different issues with different root causes and requiring different resolutions.

It is difficult to assess the appropriateness of a 'balancing' mechanism without detail on the scheme against it is intended to balance. We do not have sufficient information about the proposed Infrastructure Levy that will replace the current CIL and Section 106 agreements and there is not any certainty on what the levy can be used for such as on core services or reducing council tax. More detail of how the Levy will operate is required, including worked examples to demonstrate that local authority funding secured through the existing mechanisms is not reduced, especially in regard to the provision of affordable housing, primarily secure through S106.

Our preference for a a balancing mechanism would be that mainstream funding - including the Affordable Homes Programme and the Single Housing Infrastructure Fund, are re-designed to be more accessible to areas that will have lower levels of value uplift, and that these major funds compensate for lower Infrastructure levy receipts.

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

We agree that development capture mechanisms are less effective in areas of lower land values, but the effects of low developer contribution income in lower value areas should be treated as a standalone issue, not be intertwined with the Bonus.

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.

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

**Yes**

This approach depends on core elements of the Infrastructure Levy being taken forward in line with the approach proposed in the White Paper, and therefore needs to be postponed until the new planning system is enacted.

<sup>12</sup> MHCLG The Incidence, Value and Delivery of Planning Obligations and CIL in England 2018-19

<sup>13</sup> NHC Analysis of NHB 2020-21 Allocations



## Modern Methods of Construction

### Introductory Comments

The Northern Housing Consortium's members are increasingly adopting modern methods of construction and as a member services organisation we are supporting them to do so. Our Consortium Procurement Construction collaboration with LHC enables our members to access LHC's Offsite Project Integrator framework to help authorities and housing associations with the planning and implementation of MMC for social housing. Using an integrated framework such as the LHC and NHC collaboration means pre-approved experts and professionals are engaged from the start and will help aggregate demand, providing the scale of demand manufacturers tell us they require to optimise productivity.

There is a growing body of experience of MMC in the social housing sector, with a number of Registered Providers in the North having conducted pilot projects, large and small. LHC has worked on 139 projects for 49 social landlords, totalling more than 5,300 MMC-built social homes: we support Government's ambition to improve construction productivity.

Where councils are developing their own homes, many are beginning to adopt MMC. The North also has emerging strengths in MMC manufacturing and is home to several large production facilities, such as L&G and ILKE Homes, together with a significant proportion of the construction product supply chain; as well as cutting-edge demonstration projects such as Home Group's Innovation Village at Gateshead. The emerging specialism has been recognised by Government in the 'Construction Corridor' initiative launched by the previous Housing Minister.

### **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 limited levers to encourage uptake of MMC by developers, but proposals through planning reform for local design codes may offer greater opportunities to encourage uptake if it is considered appropriate in local areas.

- a) In preparing design codes and guides, the local authority's ability to set energy efficiency targets is one lever which could encourage MMC as energy efficient housing.
- b) If local authorities are able to provide developers with clear guidance, informed by new local design codes, that planning consent for MMC would be forthcoming, this should encourage greater uptake.

These mechanisms can encourage the market to manoeuvre towards MMC developments but there is no guarantee that they will. While the planning reforms may offer greater incentives through design and early approval, there is also uncertainty posed to the market by further reform of the planning system.

As an emergent market, MMC can carry a premium in comparison to traditional build techniques. This premium should erode as factory production methods reach optimum scale – but we are some way off this yet. This is why organisations like the NHC are attempting to aggregate volume, to give the supply chain the confidence they need to expand their capacity and secure economies of scale.

If MMC is going to make a substantial contribution to housebuilding, the sector needs to be aligned. This could include a wider, partnership-style platform for sharing knowledge and

good practice, drawing on experiences from manufacturers, educational partners and local authorities.

Developers, local authorities and Homes England working can move forward a streamlined planning process that supports innovative housebuilding. The Homes England Strategic Plan 2018/19–2022/23 sets out the organisation’s commitment to improving construction productivity, including by facilitating MMC take-up and the accelerated construction programme requires local authorities to build out quickly and use MMC.

We welcome initiatives from Homes England and these accelerators are likely to have greater impact on the market than utilising the New Homes Bonus to encourage the limited actions possible through individual local authorities.

The onset of the COVID-19 pandemic has seen more local authorities consider MMC as a potential solution to housing demand, but all are at different stages in their journey. There are some good examples of planning policy being used to encourage the use of MMC, for example Wakefield District Residential Design Guide SPD (2018) sets out the different types of MMC and encourages applicants to ‘take advantage of the latest technologies to improve building quality; and amenity of residents during construction (for example, off-site or modular systems)’.<sup>14</sup>

## **Option E: Introducing a premium for modern methods of construction (MMC)**

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

While we support the intention behind Option E, we cannot support a premium for MMC because there are too many factors which are outside of the control of the local planning authority. We feel that there are other approaches which should be used to promote modern methods of construction. One option would be through local authorities setting design standards which prioritise low carbon housing but do not specify a particular construction method to deliver net zero housing. This would naturally push the market towards MMC options which can deliver on the Government’s net zero priority. We have consistently promoted modular construction in the North in order to ensure that communities are levelled-up and that the region fully embraces all the technological and climate-led opportunities MMC has to offer. This is because now is the time to be ambitious. MMC needs a critical mass and everyone working in the built environment – local authorities, developers, planners, public bodies – should look for opportunities to achieve this. Local authorities are well placed to lead pilot schemes on their own land. They can flex their buying power to promote MMC.

**Question 24: If you are a local authority, would such a premium make a material impact on your behaviour? Would it, for example, encourage you to look for opportunities to bring through developments that are amenable to the use of MMC?**

We believe there are too many factors which are outside of the control of local authorities.

The scale of use of MMC is driven by a number of factors such as the site conditions, the financial viability of the development, and the market conditions for sale.

<sup>14</sup> [Wakefield District Residential Design Guide 2018](#)

We have worked with our members on seeking solutions to enable greater use of MMC including:

- Supporting local collaboration to develop construction solutions the key to MMC working is collaboration and not simply to solve the issue of building at volume but also to bring in landowners, planning and financiers before the process starts.
- Championing innovation to seek new and modern ways of building to improve energy efficiency performance and health and safety.
- Strengthening existing supply chains and developing new capacity from local SMEs and new market entrants.
- Seeking every opportunity to aggregate demand for better value procurement outcomes.

**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?**

Local authorities routinely monitor and record housing delivery numbers but any requirement to collect this data would be a new burden and would need to be fully funded by Government.

There would need to be a clear definition of what is classed as MMC. For instance, how much of a dwelling would need to have used components for modern methods for the dwelling to count as being MMC i.e., what percentage.

## **Option F: MMC as a condition on receipt of funding**

**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 NHB needs to retain a strong focus on delivering additional dwellings, using whatever method is most appropriate for the local circumstances and local market. Whilst we are enthusiastic about MMC, attaching additional conditions to the New Homes Bonus is not the right mechanism.

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

See previous responses above: there are market conditions which will determine which method of construction is appropriate for each site.

We support the incentivising of the use of MMC, but this could be a direct incentive to the developers, e.g. through Homes England land and funding - rather than the planning authority.

We note from the planning reforms, the Government proposes to use the planning regime to make it easier for housing using MMC to come forward, enabling modern methods of construction to be developed and deployed at scale. We support this proposal and the range of actions being undertaken by Homes England to increase construction productivity but feel the New Homes Bonus is not the right mechanism to incentivise MMC due to the limited influence local authorities have in the selection of construction methods.



## Local Plans

### Option G: Requiring an up-to-date local plan

**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**

We do not support authorities losing bonus for non-production of a local plan and our main objections to this proposal are:

- a) There are a range of issues that cause delays to local plan including judicial reviews, many of which are not within the local authority control. Therefore, any such condition would potentially penalise authorities unfairly.
- b) Not having a Local Plan in place is not a significant cause of delays in house building. Our local authority members confirm that in their experience the planning process is not the main constraint for build out rates. The percentage of planning permissions being granted by local authorities has remained steady. For 2018/19 there were 141,061 housing units with detailed planning approval in the North<sup>15</sup> and net additional dwellings in the North for the same period are 60,109.<sup>16</sup>
- c) We don't believe the New Homes Bonus is the most appropriate lever for addressing concerns regarding Local Plans. Many authorities without an up-to-date Local Plan have continued to deliver high levels of housing. Removing New Homes Bonus from these authorities will not remove the barriers that are preventing the submission of up-to-date Local Plans and will discourage the delivery of housing in the meantime.

It is hoped the Government's planning reforms will provide sufficient incentives to enable Local Plans to be developed. We support the proposals for a simpler plan-led system and the ambition to speed up the plan-making process albeit with the caveat that the proposals for a 30 month statutory timescale for the production of Local Plans must include a realistic assessment of how much time and resource will be needed.

**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**

We don't believe the NHB is the most appropriate mechanism for addressing concerns regarding Local Plans. An important incentive will be lost, and this will not achieve the aim of encouraging the delivery of new housing.

The impact could have a perverse result in that infrastructure that could be funded from NHB and is needed to enable development will not be delivered, stalling future housing developments.

A more positive and effective incentive is needed to assist willing authorities to successfully complete a Local Plan, including those measures proposed in the Planning White Paper to simplify the process.

<sup>15</sup> Housing Pipeline report HBF – Q3 2019 Report February 2020

<sup>16</sup> MHCLG Live tables on housing supply: net additional dwellings Table 118 2018/19

If this proposal proceeds, the percentage penalty should be as small as possible so as not to reduce the incentive nature of the NHB which is ultimately to deliver housing and the condition should be around demonstrating progress towards developing a Local Plan.

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

Not applicable





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