

APPENDIX 1

Government Consultation – The future of the New Homes Bonus

Policy Context

1. The Government is seeking views on the future of the New Homes Bonus (NHB) from 2022/23 onwards.
2. The New Homes Bonus was introduced in 2011 to provide a financial incentive for local authorities to encourage and facilitate housing growth in their areas.
3. The Government's intention is to review the NHB in order to focus the incentive on ambitious housing delivery. The Government sees the NHB working alongside wider financial mechanisms, including the infrastructure levy and the Single Housing Infrastructure Fund (National Home Building Fund).
4. This report includes a response on behalf of Gateshead Council, attached as Appendix 2.

The consultation ran until 7th April 2021. Ensuring a collaborative response involving officers from a range of services (including: Finance; Planning Policy; Housing Services) has necessitated the final response to the consultation being submitted in advance of Cabinet, however, at the request of Cabinet Members for Housing and Economy, a briefing on the draft response to the consultation was circulated to all Members in advance of the consultation deadline.

5. The full consultation is available on the Government's web site:
[The Future of the New Homes Bonus consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/the-future-of-the-new-homes-bonus)

Background

6. Under the current scheme the Government pays local authorities a bonus for net additional home (new builds and conversions), based on the national average band D council tax rate; with an added premium for the delivery of each affordable home. The bonus also applies to long-term (over six months) empty properties brought back into use.
7. The bonus was initially paid for a "legacy" period of 6 years from when each new property was added to the Council Tax List. Following the 2015 Spending Review, this period was reduced to 5 years from 2017/18 and 4 years from 2018/19. From 2017/18 a baseline of 0.4% growth of housing stock was introduced, below which NHB was not paid. As part of the 2020/21 Spending Round, the Government announced that no new legacy payments would be made.
8. The NHB, which is not ring-fenced, is top-sliced annually from the Revenue Support Grant. The Council has continually raised the unfairness of this approach

as part of its response to the Local Government Financial Settlement. The net loss is particularly detrimental to councils with high levels of deprivation, high need, and low council tax bases and works to the disadvantage of less buoyant housing markets and as such generally boosts the incomes of the most affluent areas with the highest housing demand and property values.

The Proposal

9. The consultation seeks views on a number of options for reforming the NHB programme:
 - raising the 0.4% baseline percentage of net annual housing growth delivered, below which NHB is not paid.
 - rewarding improvement on average past housing growth (last 3 years)
 - rewarding improvement or high housing growth, based on performance of individual local authorities.
 - Repurpose NHB to support infrastructure investment in areas with low land values
 - introducing a premium for modern methods of construction (MMC)
 - introducing an MMC condition on receipt of funding
 - requiring an up-to-date local plan

Implications

10. Since the NHB programme was introduced, Gateshead Council has received a total of £14.87m NHB with a further £0.098m forecast in 2020/21; in respect of 2,014 net new homes built, and long-term empty homes brought back into use since 2011/12 up to and including 2019/20.
11. The amount of NHB generated would have been greater had the Council met its housing delivery targets of 2,804 net new homes.
12. The review of NHB has the potential to reduce the amount of NHB that the Council receives; NHB is already reduced following the cessation of legacy payments.

Gateshead Council's response

13. There are 30 questions in the consultation; the response submitted on behalf of Gateshead is set out in appendix 2.

Implications of Recommended Option

14. Resources:

- a) **Financial Implications** – The Strategic Director, Resources and Digital confirms that there are no direct financial implications arising from this response. Any financial implications following the outcome of the consultation will be the subject of future reports.

- b) **Human Resources Implications** – None.
- c) **Property Implications** – None.
- 16) **Risk Management Implication** – No risks associated with responding to the consultation.
- 17) **Equality and Diversity Implications** – No equality and diversity implications arise directly from this response.
- 18) **Crime and Disorder Implications** – No crime implications.
- 19) **Health Implications** – No health implications.
- 20) **Climate Emergency and Sustainability Implications** – No climate emergency and sustainability implications.
- 21) **Human Rights Implications** - No human rights implications.
- 22) **Ward Implications** – The outcome from this Government consultation would impact on all Ward Areas.

**MHCLG Consultation – The future of the New Homes Bonus
10th Feb 2021 – 7th Apr 2021**

Response on behalf of Gateshead Council

Reform of the New Homes Bonus
Question 1
Do you believe that an incentive like the Bonus has a material and positive effect on behaviour?
<p>In theory it might, however, the top-slicing of funding from the Revenue Support Grant is particularly detrimental to councils with high levels of deprivation, high need, and low council tax bases, where wider austerity impacts are requiring Council's to make extremely difficult choices.</p> <p>The NHB regime also works to the disadvantage of less buoyant housing markets. Gateshead Council does not lack the ambition and will to see housing growth, however, much wider financial support is needed that will enable local authorities like Gateshead to facilitate housing growth and deliver housing targets, at the same time as delivering wider essential services.</p>
Question 2
If you are a local authority, has the Bonus made a material impact on your own behaviour?
<p>In reality, in areas like Gateshead, NHB is not supporting housing delivery due to wider austerity impacts.</p> <p>NHB does not recognise that in some local authority areas housing delivery is being significantly constrained by many factors including low development values and viability. In areas like Gateshead, where many sites have been subject to historical industrial or chemical processes associated with mining and heavy industry, ground conditions and contamination make development challenging and increase the costs of bringing forward development sites. These challenges are compounded in lower development value areas.</p> <p>The NHB's reliance on a net housing delivery target, and the introduction of a minimum delivery threshold, limits its influence in local authorities like Gateshead, where the composition of housing stock mean demolitions have been necessary in the past, and may be required in the future (having a consequential impact on net delivery rates), and where</p>

overall levels of housing need are relatively low.

Question 3

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

For local authorities like Gateshead, where housing delivery is critically suppressed by many factors including viability, sufficient funding directed at overcoming issues of weaker housing markets and development viability would be more supportive and relevant. Financial support is required to overcome barriers to development, including ground conditions and contamination which make development very challenging, and to ensure the local authority has sufficient resources and capacity to carry out the intensive work to facilitate and drive housing growth. This would be a more sustainable approach to delivering the Government's aspirations for a levelling-up of the Country.

Including a premium for homes built on brownfield land would, similarly, support a sustainable approach to development

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?

N/A

Question 5

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

Yes

Question 6

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

An increase in NHB could help support the delivery of affordable homes, however, financial support for the delivery of affordable homes should be based upon evidence of need, and directed to areas where delivery of those homes is fettered by matters such as viability, particularly where ground conditions and contamination, and lower development values, make development very challenging. NHB is not sufficiently

targeted; and is not linked to either the sum of funding required to offset viability issues, nor to the point at which financial support is required in the development process.

Question 7

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

Yes, however, this should not be seen as condoning the conversion of properties into homes that fail to provide adequate space standards inside and outside; falling well below the Nationally Described Space Standards.

Question 8

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

A three year average could smooth out fluctuations, and could also be consistent with the housing delivery test, which is based on the preceding three years' performance.

Question 9

Do you agree that the baseline should be raised?

No, this would have a detrimental impact on local authority areas where development is fettered by matters of weak housing markets and viability. As NHB is also based on net growth it would have an additional negative effect on local authorities that are progressing area regeneration involving the demolition of properties that are no longer fit for the future.

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?

The baseline should not be raised, unless designed in a way that would support a levelling-up of the Country.

Question 11

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

The baseline should not be raised, unless designed in a way that would support a levelling-up of the Country.

Question 12

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

The baseline should not be raised, unless designed in a way that would support a levelling-up of the Country.

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?

This would not support local authorities that are struggling to deliver their planned housing growth due to weaker housing markets and development viability.

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?

This would not support local authorities that are struggling to deliver their planned housing growth due to weaker housing markets and development viability.

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?

This would not support local authorities that are struggling to deliver their planned housing growth due to weaker housing markets and development viability.

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.

This form of reward alone would not support local authorities that are struggling to deliver their planned housing growth due to development viability. A payment formula could reward improved performance, particularly where local authorities are overcoming viability, however, it should go hand in hand with additional support to mitigate viability, particularly in lower value areas, and where ground conditions and contamination make bringing forward sites very challenging.

Question 17

Above what percentage (x%) of average past net housing additions should the Bonus begin to be paid? In other words, what should the value of x be in this proposed hybrid payment formula?

This would not support local authorities that are struggling to deliver their planned housing growth due to weaker housing markets and development viability or wider constraints.

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?

This would not support local authorities that are struggling to deliver their planned housing growth due to weaker housing markets and development viability.

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?

Gateshead welcomes the intention of supporting infrastructure development in areas of low development value, however, this should not be based upon an idea of reward, but a recognition that in areas of low development value and high development costs, the issue is the market's reluctance to develop, not the supply of land suitable for development.

Question 20

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

See answer to Q 19

Question 21

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

Yes

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?

The focus on MMC should perhaps be better directed towards low carbon and energy efficiency and design quality. In Gateshead, the use and piloting of MMC has been achieved on a number of housing developments where strong relationships between the Council and developers have been fostered. Local authorities can encourage MMC, however, if MMC proves to be less viable for developers NHB is unlikely to have an impact. We also know that there remain reservations about MCC by some lenders and some MMC still needs to be tried and tested. More central government research and development, and engagement with developers is required to help overcome scepticism.

Question 23

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

No, see answer to Q 22

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?

This would not be a priority in Gateshead.

It would not impact on our behaviour as we are already looking to drive housing development; if MMC would support delivery it would be taken into consideration anyway, however, the cost of delivery can be higher than standard construction methods.

Question 25

How onerous a data burden would this option impose on local authorities? Do you agree

with the proposal to collect the MMC data at the point at which a local authority signs off a building as habitable?

Given other priorities, this would be an unwelcome additional burden

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 Council is well aware of the potential benefits of MMC but there needs to be a balance to ensure housing can be delivered without additional burdens.

Question 27

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

See answer to Q22

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?

Yes

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%?

25%

Question 30

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

It is unlikely to be a determining factor for local authorities which, in spite of ever reducing resources, are diligently working to ensure their local plan is up to date and effective.

