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Briefing Note:

The Future of New Homes Bonus Consultation

February 2021

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## 1. Introduction

- 1.1 On 10 February 2020, the Ministry of Housing, Local Government and Communities published a consultation on the future of New Homes Bonus from 2022/23 onwards. This can be found [here](#) and is also set out in Annex A. A summary of the 30 questions is set out in Annex B.
- 1.2 This briefing note provides a summary of the consultation document.
- 1.3 This consultation closes on 7 April 2021 and responses can either be submitted online ([here](#)) or by email to [newhomesbonus@communities.gov.uk](mailto:newhomesbonus@communities.gov.uk)
- 1.4 The main points of note from the consultation paper are as follows:
- The new scheme will be in place for 2022/23.
  - The government do not intend for the new scheme to include legacy payments.
  - There is no mention as to whether the final legacy payment for 2019/20 (due in 2022/23) will be paid (worth £222m nationally).
  - Whether there should be a change to the current split of the Bonus in two tier areas (80% district to 20% county).
  - The paper includes six Options (A to F), but these are not mutually exclusive.
  - 10 of the 30 questions asked relate to the level of threshold that should be applied (i.e. the level below which growth is not rewarded). The paper considers raising a generic threshold, redesigning the threshold based on historic growth (tailored local threshold) or a mix of the two (these are labelled options A to C). It is worth noting that the paper states that the government wants a value significantly higher than the current 0.4% baseline.
  - There is an option for funding from New Homes Bonus to be potentially repurposed to equalise the amounts raised from the new Infrastructure Levy; reflecting that these amounts will differ due to the level of uplift in development values (Option D).
  - The paper considers whether some of the Bonus funding could be distributed based on Modern Methods of Construction (MMC), with either a proportion set-aside for MMC properties (Option E) or the entire allocation being dependent on a minimum percentage of MMC properties being constructed (Option F).
  - Finally, the paper reintroduces the idea (as in 2015) that a local plan (or at least working towards one) should be a requirement to receive funding, with potentially lower allocations for those authorities without an up to date plan.

## 2. New Homes Bonus Consultation

### Overview

2.1. The consultation document is split into 4 sections:

- Section 1 outlines the consultation procedure
- Section 2 is an introduction to the paper
- Section 3 provides background information regarding the NHB scheme
- Section 4 sets out the options for reform, including 30 consultation questions

### Sections 1 to 3

2.2. Sections 1 to 3 outline the consultation process and provide a summary of the scheme to date and the government's intentions for reform.

#### Section 1 – Consultation Procedure

2.3. Section 1 confirms that the consultation is seeking views as to reforms from 2022/23 onwards. It goes on to state that the paper covers options that the government believes will provide an incentive which is more “focused and targeted on ambitious housing delivery, complements the reforms outlined in the Planning White Paper and dovetails the wider financial mechanisms” (including the infrastructure levy and the Single Housing Infrastructure Fund).

#### Section 2 – Introduction

2.4. Section 2 provides a brief overview of the New Homes Bonus Scheme, including:

- The scheme is funded from a top slice of Revenue Support Grant (though in recent years, MHCLG has provided small top-ups from other departmental budgets to avoid adjusting the scheme design to keep costs within the £900m top-slice)
- The funding is un-ringfenced
- In two tier areas, it is split 80:20 between district and county councils

#### Section 3 – Background

2.5. This section provides a summary of the scheme to date, including:

- The scheme was introduced in 2011.
- It initially made payments for 6 years (an initial in-year payment and 5 years' worth of what became known as legacy payments), with all eligible growth counting towards authorities' allocations.
- It was subject to a consultation, following the 2015 Spending Review, that reduced the number of years' payments to 4 years in 2018/19 and introduced a 0.4% baseline

(where growth below was not eligible for funding). There was a transitional year in 2017/18, in which authorities received five years' allocations.

- The 2020 Spending Round reduced the number of years down to 1 for the 2020/21, for which no legacy payments were made. The same approach was applied for 2021/22.

2.6. The table below provides a summary of the in-year and legacy payments since 2017/18.

**Table 1 – New Homes Bonus Allocations 2017/18 to 2021/22**

	2017/18	2018/19	2019/20	2020/21	2021/22
Previous Years' allocations	1,030	545	295		
2017/18	197	197	197	197	
2018/19		204	204	204	204
2019/20			222	222	222
2020/21				284	
2021/22					196
<b>Total National Allocation (£m)</b>	<b>1,227</b>	<b>946</b>	<b>918</b>	<b>907</b>	<b>622</b>

2.7. The table shows:

- The 2017/18 allocation of £197m nationally was paid for 4 years to 2020/21;
- The 2018/19 allocation of £204m nationally was paid for 4 years to 2021/22;
- The 2019/20 allocation of £222m nationally has so far been paid for 3 years to 2021/22;
- The 2020/21 allocation of £284m nationally was paid for 1 year only in 2020/21; and
- The 2021/22 allocation of £196m nationally is expected to be paid for 1 year only in 2021/22.

2.8. A key question from the table above, therefore, is whether the fourth year of the 2019/20 allocation, that is due to be paid in 2022/23, will still be made, alongside the replacement for New Homes Bonus.

## Section 4 – Options for Reform

- 2.9. The section begins by confirming the consultation applies for 2022/23 onwards and therefore there will be no changes to the 2021/22 allocations (which formed part of the 2021/22 local government finance settlement).
- 2.10. It goes on to state that, in line with the in-year allocations of 2020/21 and 2021/22, where there were no legacy payments, the “*government does not intend to reintroduce the concept of legacy payments*”.
- 2.11. Whilst the consultation does not specifically address the question raised in para 2.8 above, as to whether there will be a final 2019/20 legacy payment in 2022/23 of £222m, it does seem, by omission, to suggest that this payment might not be made:

*“the options for reform considered in this section would only be implemented for funding allocations made from **2022/23 onwards**. No changes are proposed for either calculation of the in-year element of the 2021/22 allocations or **payments due to be made in 2021/22 relating to previous years**”* (LG Futures’ emphasis).

- 2.12. The first section of the questions paper seeks stakeholders’ views on the effectiveness of the scheme, with the following three questions:

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

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

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

- 2.13. The paper goes on to ask whether future rewards should continue to use the current 80 district/20 county split or should be changed (in either direction), whether the affordable housing premium should be maintained (and if so at what amount) and whether the reward should be maintained for bringing long term empty properties back into use.

**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?

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

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

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

- 2.14. The next question relates to the data used in determining the Bonus i.e. whether to use single year figures or a three-year average (due to the volatility of single year amounts).
- 2.15. If the scheme was to continue with a threshold, depending on the design, authorities with lower levels of growth may consider they have more chance of gaining some rewards using single year data, as opposed to three-year averages. For example, a threshold of 0.4% would mean that any authority with growth of 0.5%, 0.5% and 0.2% would receive allocations in two of the three years; however, the average of 0.4% per annum would result in no allocations over the period.

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

- 2.16. The next set of questions relate to the threshold. The paper asks whether it should be raised and seeks views as to what level and why. The paper sets out a case for raised threshold (option A), and therefore “sharper incentive”, allowing a higher level of reward for those above it i.e. fewer authorities qualifying for an allocation of what might be considered to be a fixed amount over the medium term.

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

**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?

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

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

- 2.17. However, it then goes on to offer an alternative approach (Option B), with thresholds set based on an authority’s past performance. This would mean that each authority’s past growth would be taken into account (in a similar way to the LABGI scheme for business rates growth in the early 2000s). The intention of this approach would be to provide an incentive for those authorities “with a less successful record of housing delivery to improve rapidly”.
- 2.18. This approach could be seen as tackling the issue of scope for growth (i.e. a less successful record may be due to geographical constraints, for example), but it also potentially creates a higher threshold for those authorities that have been the most successful, which they might feel is also unfair.

**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?

**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?

**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?

2.19. Finally, in relation to thresholds, a hybrid solution is proposed (Option C). Under this approach, the payment formula would reward authorities for either improving on their average past performance, or achieving high housing growth, with authorities 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.

2.20. Therefore, this would provide incentives for high growth authorities and those that have a less successful record of housing delivery.

2.21. The government are also seeking views on the potential value of x and y, with the paper stating that *“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 hybrid payment formula for the Bonus which rewards either improved performance or high housing growth? Please explain why or why not.

**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?

**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?



2.22. The next section of the paper suggests that the NHB funding should be used to equalise the funding received through the new Infrastructure Levy (Option D). The paper explains that (through the Planning for the Future White Paper), the government proposes to replace the existing system of section 106 agreements and Community Infrastructure Levy with a new Infrastructure Levy (which is based on a proportion of land value uplift associated with housing development and use this to fund affordable housing and infrastructure). This rate of this levy would be set nationally, as a proportion of the sale value of a development.

2.23. However, as land value uplift is greatest in areas where development values are high, the paper asks whether funding from NHB could be repurposed 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. The paper notes that 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?

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

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

2.24. The next section (Option E) of the paper considers whether, as a subsidiary objective of the scheme, it is used to promote modern methods of construction (MMC), with general housing growth still the primary objective. It suggests, in the same way as affordable housing, a premium for new homes using MMC could be added. Alternatively, it asks whether to require authorities to meet a target for MMC properties, before it receives its overall Bonus (Option F).

2.25. The paper sets out a seven-category definition framework for MMC for homebuilding, as determined by the MHCLG Joint Industry Working Group. Whilst the paper highlights a lack of data at this point (in determining homes using MMC), it does suggest it could be collected at the sign-off of future properties.

**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?

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

**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?

**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?

**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?

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

- 2.26. As was previously suggested in the 2015 consultation on the scheme, the paper asks whether a local plan should be a requirement (or at least progress towards one), before funding is awarded through the scheme, in order to incentivise the development and maintenance of up-to-date local plans.

**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?

**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%?

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

### 3. Next Steps

- 3.1. LG Futures will shortly send out details of the additional support it is able to offer to local authorities regarding this consultation.
- 3.2. The support will cover what the potential options may mean for your authority and wider issues that you may want to consider. This information should therefore provide greater confidence to authorities when looking to respond to the consultation questions and also understand the potential implications of the various options for their medium-term financial plan.
- 3.3. It is anticipated that details of this support will be sent out in the week commencing 22 February. The consultation paper and support will also be covered in our first monthly live video update, which will take place on 23 February from 11.30am-12.00pm (log in details to follow on this shortly).

## Annex A – Consultation document (extracted from the website)

### 1. Consultation procedure

**Topic of this consultation:** This consultation seeks views on the future of the New Homes Bonus, from 2022/23 onwards. It covers a number of options for reforming the programme to provide an incentive which is more focused and targeted on ambitious housing delivery, complements the reforms outlined in the government’s Planning White Paper, and dovetails with the wider financial mechanisms the government is putting in place, including the infrastructure levy and the Single Housing Infrastructure Fund.

**Scope of this consultation:** This consultation sets out a variety of options for reforming the New Homes Bonus, beginning in 2022/23. The options on which views are sought are:

- raising the baseline percentage
- rewarding improvement on average past housing growth
- rewarding improvement or high housing growth
- 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

**Geographical scope:** This consultation is applicable to England only.

#### Basic information

**Body responsible for the consultation:** Ministry of Housing, Communities and Local Government

**Duration** 8 weeks from 10 February 2021.

**Enquiries:** For any enquiries about the consultation please contact:

[newhomesbonus@communities.gov.uk](mailto:newhomesbonus@communities.gov.uk)

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#### How to respond

If possible, please respond to the questions in this consultation via the [online form](#).

Responses may also be sent to: [newhomesbonus@communities.gov.uk](mailto:newhomesbonus@communities.gov.uk)

The deadline for responses is 7 April 2021.

## 2. Introduction

The New Homes Bonus (“the Bonus”) rewards local authorities for net additional homes added to the Council Tax Base, thereby seeking to incentivise authorities to encourage housing growth in their areas. Introduced in 2011, the Bonus applies in respect of additional new builds and conversions delivered above a baseline of housing growth, using the national average band D council tax rate. It also applies in respect of long-term empty properties brought back into use, and there is a premium for affordable homes.

The Bonus is paid annually from a top slice of the Revenue Support Grant and forms part of the Local Government Finance Settlement. The funding is un-ringfenced so that councils can choose how to allocate the funding to meet local priorities, and, in two-tier areas, allocations are split 80/20 between District and County Councils. On introduction allocations were paid for 6 years, known as ‘legacy payments’. Since its introduction in 2011, including the allocations for 2021/22, the Bonus has awarded a total of £9.5 billion to local authorities in England, recognising a net increase in housing stock of 2 million. This includes over 40,000 long term empty properties brought back into use and 500,000 affordable homes.

The government considers that it is now appropriate to consider the future of the Bonus and, in particular, options for reforming the scheme to ensure it provides an effective incentive which: is focused and targeted on ambitious housing delivery; complements the reforms outlined in the government’s Planning White Paper; and dovetails with the wider financial mechanisms the government is putting in place, including the proposed infrastructure levy and the National Home Building Fund, a multi-billion pounds programme which will bring together existing housing land and infrastructure funding streams into a single, flexible, more powerful pot, to drive an increase in supply over the long term.

### 3. Background

The New Homes Bonus was introduced in 2011 to provide an incentive for local authorities to encourage housing growth in their areas. The aim of the Bonus was to provide a financial incentive to reward and encourage local authorities to help facilitate housing growth. The five key stated principles of the policy were that it should be:

- a powerful incentive
- simple in terms of understanding and implementation
- transparent in terms of its recognition, significance and rewards from growth
- predictable in terms of expected future funding and perception of being a permanent feature of local government finance
- flexible in terms of how receipts are spent and spent in line with the wishes of the local community.

Following the outcome of the 2015 Spending Review, in December 2015 the government consulted on making changes to the way the Bonus is calculated to improve the incentive effect and make savings of at least £800 million to support authorities with specific pressures, such as adult social care. The consultation sought views on:

- reducing the number of years for which the Bonus is paid from 6 years to 4 years, 3 years or 2 years
- withholding the Bonus from areas where an authority does not have a Local Plan in place
- abating the Bonus in circumstances where planning permission for a new development has only been granted on appeal
- adjusting the Bonus to reflect estimates of deadweight (introducing a baseline above 0%)

Following the consultation, in 2017/18 we implemented changes to:

- reduce the number of years the Bonus is paid to 5 years in 2017/18 and 4 years from 2018/19
- introduce a baseline of 0.4% growth of housing stock below which the Bonus would not be paid (and retained the option of adjusting the baseline to ensure allocations remained within the funding envelope)

As part of the Local Government Finance Technical Consultation, in Summer 2017 the Department consulted on methodology for reducing payments for homes where planning permission is later granted on appeal but decided not to implement this measure.

For 2020/21, as part of the one-year Spending Round, the government announced that it would make a new round of allocations for 2020/21 but that these allocations would not attract new legacy payments and that it would consult on the future of the housing incentive.

## 4. Options for reform

This section outlines the broad options the government has been considering for reforming the Bonus. It describes the approaches that could be taken and sets out some of the key relevant considerations. In those cases where the government has a preferred approach, this is explained.

Importantly, the options for reform considered in this section would only be implemented for funding allocations made from 2022-23 onwards. No changes are proposed for either calculation of the in-year element of the 2021-22 allocations or payments due to be made in 2021-22 relating to previous years. This is to ensure that local authorities have sufficient time to reflect the proposed changes in their forward planning.

### Legacy payments

Prior to reforms to the Bonus implemented in 2017/18, to provide a powerful and predictable incentive, each annual in-year reward was paid for six financial years, such that allocations built up incrementally over time as each 'in-year' reward continued to be paid in addition to the new reward for that year. These are commonly referred to as legacy payments. The longevity of legacy payments was reduced when the Bonus was reformed in 2017/18. New legacy commitments ceased to be made in allocations from 2020/21 and the government does not intend to reintroduce the concept of legacy payments.

### 4.1. Questions on the current New Homes Bonus

#### 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?

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

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

#### 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?

### The affordable housing premium

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 of should be retained in a reformed Bonus.

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

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

### 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?

### 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?

## **4.2. Changes to the threshold for 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.

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

**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?

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

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

### 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?

**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?

**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?

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

A further alternative would be a hybrid of options A and C. 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 hybrid payment formula for the Bonus which rewards either improved performance or high housing growth? Please explain why or why not.

**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?

**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?

### 4.3. Supporting infrastructure investment in areas with low land values

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?

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

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

#### 4.4. Modern Methods of Construction

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?

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.

##### Modern Methods of Construction

Modern Methods of Construction refers to a wide spectrum of technologies, ranging from offsite construction to smart techniques. The MHCLG Joint Industry Working Group on MMC produced a seven-category definition framework, which spans the MMC used in homebuilding. The categories are:

Category 1 – Pre-Manufacturing - 3D primary structural systems: A systemised approach based on volumetric construction involving the production of three-dimensional units in controlled factory conditions prior to final installation

Category 2 – Pre-Manufacturing - 2D primary structural systems: A systemised approach using flat panel units used for basic floor, wall and roof structures of varying materials, which are produced in a factory environment and assembled at the final workface to produce a three-dimensional structure

Category 3 – Pre-Manufacturing – Non-systemised structural components: Use of pre-manufactured structural members made of framed or mass engineered timber, cold or hot rolled steel or pre-cast concrete.

Category 5 – Pre-Manufacturing – Non-structural assemblies and sub-assemblies: A series of different pre-manufacturing approaches that includes unitised non-structural walling systems, roofing finish cassettes or assemblies, etc.

Category 6 – Traditional building product led site labour reduction/productivity improvements: Includes traditional single building products manufactured in large format, pre-cut configurations or with easy jointing features to reduce extent of site labour required to install.

Category 7 – Site process-led labour reduction/productivity improvements: This category is intended to encompass approaches utilising innovative site-based construction techniques that harness site process improvements falling outside the other categories

Pre-manufactured value (PMV) is a measure of the proportion of a project made up of on-site labour, supervision, plant and temporary works and is associated with increased productivity. Increasing manufacturing and/or reducing site labour can both be applied to improve PMV.

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

**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?

**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?

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?

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

## 4.5. Local plans

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?

**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%?

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

## Annex B – Summary of questions

Question 1:

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

Question 2:

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

Question 3:

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

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?

Question 5:

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

Question 6:

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

Question 7:

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

Question 8:

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

Question 9:

Do you agree that the baseline should be raised?

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?

Question 11:

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

Question 12:

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

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?

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?

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?

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.

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?

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?

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?

Question 20:

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

Question 21:

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

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?

Question 23:

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

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?

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?

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?

Question 27:

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

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?

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%?

Question 30:

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