CCN
COUNTY COUNCILS NETWORK

Consultation Response

@CCNOffice County Councils Network County Councils Network

countycouncilsnetwork@local.gov.uk

Visit www.countycouncilsnetwork.org.uk to find out more about CCN's policy and research local government finance.

The Future of the New Homes Bonus Consultation

Introduction

1. The County Councils Network (CCN) represents 36 English local authorities that serve counties. The 24 county and 13 unitary authorities that make up CCN are the largest part of the local government family. They represent all four corners of England, from Cumbria to Cornwall, Durham to Kent, North Yorkshire to Suffolk, Derbyshire to Essex.

2. The essential services our members provide touch on the everyday lives of residents and businesses across 86% of England's landmass and 47% of its population. The areas represented by our members constitute 38% of local government expenditure; 44% of total public expenditure (£201bn); and generate just under half of all tax revenues (£255bn). The economies of our areas contribute 39% of Gross Value Added (GVA) and 42% of all employment.

3. CCN welcome this opportunity to respond to the consultation on the future of New Homes Bonus (NHB). Our organisation has long argued that NHB should be reformed. This recognises our strongly held view that the original design of the scheme lacked clear objectives regarding how authorities should use the funding and has unbalanced the local government finance scheme, both in two-tier areas and regionally between upper-tier councils.

4. The most effective way to redress this imbalance would be to distribute the existing £900m for NHB via the adult social care relative needs formula, ensuring that all Government funding is provided on the basis of need.

5. However, it is clear from the consultation that Ministers want to continue a funding scheme that rewards house building and delivering wider housing outcomes, rather than abolish it. Recognising the Government's commitment to come forward with separate plans for a long-term sustainable funding solution for adult social care, CCN therefore supports the continuation of a specific incentive for house building.

6. In considering the consultation and reform, CCN strongly welcome the assertion within the consultation that the purpose of the reforms are to "*provide an incentive which is more focused and targeted on ambitious housing delivery [and] complements the reforms outlined in the government's Planning White*". We also strongly welcome the emphasis placed on the new reward being more focused on specifically funding infrastructure provision; primarily a responsibility for county councils in two-tier areas.

7. CCN wants the replacement for NHB to distribute the financial rewards that are available in a much more equitable way – in a way that maximises its incentive-effect and properly funds the roles that all authorities are playing. Any replacement to NHB must be well-designed so that funding can be used more effectively than has been the case in the current NHB methodology. In particular, county councils are looking forward to a new NHB that fully rewards the role that they play in supporting house-building and the provision of infrastructure.

8. The consultation on a replacement to NHB provides a very wide range of options which could result in very different outcomes. CCN's preferred outcome would be one that continues to be based broadly on housing numbers but with a methodology that gives a fairer share of the funding to county councils in recognition of their key role in delivering housing growth supported by infrastructure.

9. CCN's key points in response to the consultation are:

   - The top-sliced funding nature of the NHB, alongside the current tier-split of 80/20 in two-tier areas, has disproportionately affected county councils as it has shifted resources away from upper-tier services that have faced the most acute demands for social care over the past decade towards lower tier and inner London boroughs that have not faced the same level of cost pressures. However, given that it is clear that some form of incentive based payment will continue, CCN supports the reform of the NHB.

   - Allocations of the bonus have not been equitable and have resulted in much greater rewards to some types of authority and to some regions of the country that naturally experience higher levels of housing growth. CCN wants the replacement for NHB to distribute the financial rewards that are available in a much more equitable way – in a way that maximises its incentive-effect and properly funds the roles that all authorities are playing. We set out our thoughts in this response for a new approach to setting the objectives that would allow the fund to be used more effectively.

   - As outlined throughout our response, CCN does not support the current tier-split of 80/20 favoured to district councils. With the consultation outlining the desire of the Government for NHB to have a sharper focus on supporting housing delivery and associated infrastructure, a key objective of reform should therefore be to weight payments more towards county councils.

   - CCN does not support raising the threshold above which payments should be paid, nor do we support basing the reward on local authorities' past performance, or the hybrid approach that is set out in the consultation. Instead, we would support a scheme that remains broadly the same, but with a higher share of the bonus paid towards county councils, as outlined above.

   - CCN supports the principle of using NHB payments to top-up Infrastructure Levy payments – this could help those areas with lower land values to raise additional finances for infrastructure provision. However, we would like to see further details of the Infrastructure Levy, and details over how the NHB would be allocated, before we can support this approach.

   - CCN does not support the proposal to make it a condition of receiving the bonus that a percentage of net additional homes should be built using MMC.

   - CCN does not support linking the payment of the NHB to the progress of local plans. This would penalise authorities such as county councils who are not responsible for their preparation, and believe that additional sanctions for local planning authorities would be counterproductive.

10. Before answering the specific consultation questions, this response sets out important overview context for the design of any future replacement for NHB. Firstly, it examines the financial impact of the bonus since its inception and its impact on incentives. Secondly it

outlines what CCN believe should be the objectives of the bonus moving forward with a particular focus on the role of county councils in delivering housing, infrastructure, economic growth and employment.

Overview

Financial Impact

11. NHB has distributed a significant amount of resources since 2010-2022: £9.5bn over 10 years. Allocations have not been equitable and have resulted in much greater rewards to some types of authority and to some regions of the country.

12. It remains the case that the top-sliced nature of NHB has shifted resources away from upper-tier services that have faced the most acute demands for social care over the past decade towards lower tier and inner London boroughs that have not faced the same level of cost pressures.

13. This is a fact that the Government have implicitly accepted through their own reforms to the NHB scheme in 2015, which the consultation document states were aimed at supporting authorities with specific pressures, such as adult social care.

14. In two-tier areas the impact of the top-slice has been compounded by allocations being heavily skewed towards districts (80% of the NHB rewards are paid to districts, only 20% to county councils). Table 1 shows that shire districts have received £2.8bn from NHB over the past 10 years, compared to £724m for county councils.

15. As a result of the top-slice and tier split of 20%, county councils have unfairly lost-out from the NHB methodology that has been used, impacting the effectiveness of both the incentive and strategic deployment of resources to support housing development.

16. CCN estimate that county authorities would receive 50% more if the funding had been prioritised for social care rather than the current NHB allocations. With an overall negative financial impact for county councils as a result of the policy, coupled with growing demand for social care services, this has reduced the available resources for other important upper-tier functions focused on critical infrastructure (i.e. roads), economic growth and employment related expenditure.

17. It is also the case that some of our unitary member councils have benefited less than others due to the fact NHB simply rewards existing patterns of housing demand and supply, resulting in areas such as inner London gaining disproportionately compared to other types of councils due to a particularly buoyant housing market.

18. Table 1 shows that inner London is overwhelmingly the recipient of the largest NHB payments. On average, inner London boroughs have receive £342 per head over the last 10 years – much more than in any other part of the country and vastly more than that received by county councils. Tower Hamlets has consistently received the largest NHB payment and will get £17.6m in 2021-22 – nearly four times more than the largest payment to a county council (Kent). It is difficult to avoid the conclusion from this data that NHB payments follow where house building would have happened anyway.

Table 1 – Total NHB payments (2010-11 to 2021-22)[1]

Class	NHB (TOTAL) (£M)	Share (%)	Population	Share (%)	NHB per head (£)
Inner London borough	1,090.0	12.0%	3,189,683	5.6%	341.7
Outer London boroughs	896.1	9.9%	5,598,209	9.9%	160.1
Unitary authorities	1,410.7	15.6%	9,234,117	16.3%	152.8
Shire districts	2,842.4	31.4%	20,441,260	36.1%	139.1
Metropolitan districts	1,414.2	15.6%	11,866,912	21.0%	119.2
CCN Unitary	676.6	7.5%	6,288,567	11.1%	107.6
Shire counties	724.3	8.0%	20,359,493	36.0%	35.6
England	**9,054.3**		**56,618,748**		**159.9**
CCN members	1,400.9	15.5%	26,648,060	47.1%	52.6

19. The distribution of NHB has also distorted the functioning of the local government funding scheme, particularly in two-tier areas. NHB has also resulted in an unbalanced financial system, where some types of authority are overly reliant on NHB, whilst others receive very little; in the process undermining the incentive.

20. From Table 2 we can see how skewed NHB payments are by comparing them to Core Spending Power (CSP). Only a few CCN unitary authorities will get above average NHB payments compared to CSP (for example, Central Bedfordshire and Cheshire East). But the amounts received by county and CCN unitary authorities are well below average. In 2021-22, NHB payments will be equivalent to only 0.3% of CSP for county councils, and only 1.6% for CCN unitary authorities. This is much less than the 8.7% of CSP for district councils.

Table 2 – New Homes Bonus payments as percentage of Core Spending Power

	New Homes Bonus (£M)	Core Spending Power (£M)	NHB as %age CSP
Inner London boroughs	70.6	3,131.6	2.3%
Outer London boroughs	54.1	4,436.9	1.2%
Metropolitan districts	86.3	10,448.6	0.8%
Shire districts	201.2	2,300.2	8.7%
Unitary authorities	88.7	7,741.6	1.1%
CCN unitaries	71.2	4,315.5	1.6%
Shire counties	50.3	14,961.8	0.3%
England	**622.3**	**47,336.2**	**1.3%**

[1] The table shows payments received for authorities in existence in 2021-22 following Local Government Reorganisation (LGR).

21. CCN’s view is that the NHB scheme has distributed significant amounts of funding in an unfair and unbalanced way and any replacement must seek to rebalance the system in a fairer and more equitable way.

Objectives of New Homes Bonus

22. As outlined in the consultation document, the current NHB scheme is underpinned by the following principles;

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

23. In relation to principle one and four, there is a strong argument that the amount received by county councils is too little to be an effective incentive – and the amount received by district councils too much to be spent effectively on wider services that support housing development.

24. Such large allocations have exposed district councils overreliance on incentive-led funding (a problem which has been compounded by the 80% share of business rates growth received by district councils).

25. Moreover, it has made district councils very reliant on uncertain and relatively unpredictable income streams. Indeed, attempts to reform NHB in recent years have been hampered by the reliance of some district councils on this income source.

26. Some districts are receiving very large NHB payments: the Vale of White Horse will receive £4.562m in 2021-22 (as much as Kent County Council). At its peak in 2016-17 (when the total amount distributed was £1.462bn), there were 7 district councils receiving more than £5m (Aylesbury Vale received £8.3m).

27. Such large payments to relatively small local authorities means that large amounts of funding cannot be used effectively. Smaller organisations have lower capacity for strategic investment, with a smaller range of services in which to invest resources effectively. As a result, there is some evidence that district councils have simply held on to their NHB receipts and held them in reserves.

28. The uncertainty of the NHB receipts also makes it difficult for smaller organisations to plan ahead. Larger organisations – both county councils and CCN unitary authorities – are more likely to have made use of their NHB allocations in-year to support larger scale critical infrastructure projects.

29. In considering the future operation of the scheme, and in particular the most appropriate tier split in two-tier areas, CCN also strongly question the effectiveness of principle five of the current scheme. Currently NHB is a non-ring fenced meaning they can be spent by

authorities as they see fit, although councils are expected to spend receipts "in line with the wishes of the community".[2]

30. There is serious drawback in this principle of the current NHB scheme in that there has never been any clear criteria for what authorities ought to be using the funding they receive – or rather, it has tried to support far too many objectives.

31. Is the NHB an incentive for local authorities to attract and approve future house building applications? Is it a reward or compensation for approving those applications? Or is it part-funding for the infrastructure and services required as a result of population growth? Or should it be used – as has been the case in most authorities – to simply fund ongoing expenditure?

32. Without clarity about the purpose of the grant it is difficult to create a properly focussed scheme that is capable of supporting the delivery of housing growth. The current principle of 'community wishes' is far too broad and undefined. Uncertainty about the purpose of the funding has led to the muddled and unbalanced methodology used to distribute the funding, particularly in relation to the two-tier split. If the Government are clear about what the objectives are, then it will be possible to design a funding methodology that can deliver those objectives. If a stronger set of objectives had been in place in 2010-11, when NHB began, then it is very unlikely that county councils would only have received a 20% share of funding.

33. Given this drawback in the current scheme, CCN strongly welcome the assertion within the consultation that the purpose of the reforms are to "*provide an incentive which is more focused and targeted on ambitious housing delivery [and] complements the reforms outlined in the government's Planning White Paper*". We also strongly welcome the emphasis placed on the new reward being more focused on specifically funding infrastructure provision; primarily a responsibility for county councils in two-tier areas.

34. In order to deliver this more targeted approach, CCN believe that the following three areas of council related activity must be considered when determining the design of the replacement for NHB and specifically the most appropriate tier split;

    - ***Activity to attract growth (growth-related and economic development expenditure).*** This is something that can be incentivised: local authorities can make strategic decisions to increase the rate of house-building and supported expenditure. There are different ways of setting this threshold or target – and we discuss these in our answers to the consultation questions.

    - ***Activity to deal with growth before or during delivery (planning, development control and strategic planning).*** These are the day-to-day activities of making planning decisions and ensuring buildings are constructed to the appropriate standards. This is largely funded through the current Settlement Funding Assessment (SFA) and other grants.

    - ***Activity to deal with the consequences of growth (infrastructure, services).*** This is essential and something that is largely ignored by the current NHB scheme.

[2] Department for Communities & Local Government (2014), *Evaluation of the New Homes Bonus*

It is not possible to simply build homes without providing infrastructure. Funding – and compensation – should follow where these functions are undertaken.

35. In response to the conclusion questions, we expand on the specific role of county authorities in relation to the above functions and how this should influence the design of the replacement for NHB.

CCN responses to consultation 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?

36. NHB has had some effect on local authority behaviour: it has made authorities more proactive to accommodate housing growth. In the early years of the scheme, authorities focussed on bringing empty properties back into use. Ten years later, the scope for achieving these improvements through the NHB incentive are now much reduced.

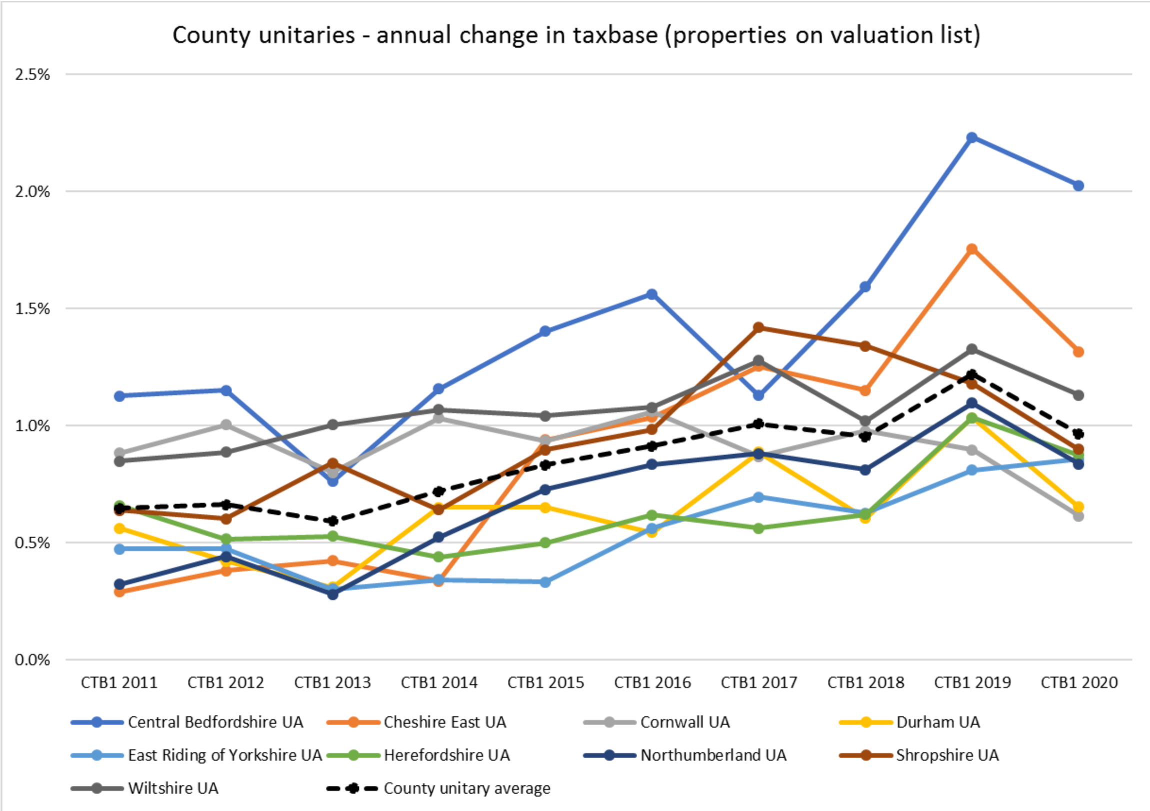
37. Of course, the incentive-effect has been very different in shire counties and county unitaries. For shire counties, the incentive-effect is almost nil: on average, NHB represents only 0.3% of Core Spending Power. And even in the county councils receiving the largest payments in cash terms, it is not sufficiently significant to drive material changes in activities or policy.

38. The effect in CCN unitary authorities is stronger, and the cash amounts are much more significant relative to CSP. Central Bedfordshire's NHB in 2021-22 (£7.2m) is equivalent to 3.2%, with Cheshire East the next highest (2.5% of CSP). These are more material amounts and will have had an impact.

39. In CCN unitary authorities growth rates in house-building have been increasing in recent years. In 2011 and 2012 – at the start of the NHB scheme – average growth rates were around 0.6% but these have consistently increased over the period and, by 2019, averaged 1.2%. There has been a "dip" in 2020 but this was a consequence of the pandemic and we wait to see whether this will become a sustained change in trend.

40. Increased house-building rates have clearly coincided with the NHB scheme – and even though the payments peaked in 2016-17, it could be argued that the effects of that peak were only felt 3-4 years later. Without further investigation, though, the data only shows correlation rather than causation, though there has been an increased emphasis on delivering housing numbers through national housing and planning policy in recent years which could also provide an explanation.

Chart 1 – CCN Unitary authorities – annual change in taxbase (properties on valuation list)



41. Nevertheless, the NHB has been afflicted by uncertainty about its future for most of the last 10 years and this has undermined its effectiveness. Attempts have been made on a number of occasions to reduce the payments (for example, the proposal in the 2013 Spending Round to top-slice £400m NHB payments for Local Enterprise Partnerships) and there have been reductions in the legacy payments made over time.

42. Authorities have not had much certainty about the amounts that they will receive or the way that reward payments will be calculated (for instance, how the threshold will be set). Without that certainty, the incentive-effect is certainty diluted. Furthermore, it makes it much more difficult for an authority to use the NHB payments in a planned and strategic way over the medium term to achieve the objectives of the scheme.

43. It should be noted that councils also receive additional income through the council tax for tax base growth. For shire counties, the "incentive effect" of natural growth in council tax income has been greater than the amounts received from NHB. The advantage of council tax is that these incremental increases in revenue are permanent and it is possible to plan over the medium term how they should be used. If the replacement NHB scheme is going to be more effective, then it needs to work more like council tax – and indeed, to complement the effect of council tax.

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?

44. In the original consultation (2010)[3], the rationale for an 80% share for district councils was that the incentive "must be strongest where the planning decision sits – the lower tier in two tier areas". This was "a starting point for local negotiation", although we are not aware of any two-tier areas which have negotiated a different split.

45. CCN is very strongly against the current tier split. With the consultation outlining the desire of the Government for NHB to have a sharper focus on supporting housing delivery and associated infrastructure, a key objective of reform should therefore be to weight payments more towards county councils.

46. Our analysis, presented above, shows that the disproportionate split for districts has unbalanced the local government finance system and financially penalised county councils. Furthermore, the imbalance in the payments in two tier areas has created ineffective incentives to both county councils and districts councils. These financial and incentive-based reasons, alone, provide a rationale for rebalancing the tier split.

47. Equally important, however, is that CCN believes that the replacement NHB should give greater recognition to the role of county councils who, despite other financial pressures, make a significant contribution to infrastructure, place-shaping, facilitating housing growth and associated expenditure.

48. In determining the tier split, the Government should be considering the functions and contributions that local authorities undertake that support housing growth. Decisions about the tier split should then follow which of these functions the Government wants to incentive – and fund. As highlighted in the overview section, CCN believe that there are three criteria for analysing the role of different tiers in supporting housing growth, and thus should influence the most appropriate the tier split;

    (1) Activity to attract growth (growth-related and economic development expenditure)
    (2) Activity to deal with growth before or during delivery (planning, development control and strategic planning)
    (3) Activity to deal with the consequences of growth (infrastructure, services)

49. CCN's view is that all of these functions should be supported with funding from central government and are capable of being incentivised through a reformed NHB.

50. To date, NHB has placed too much weight on incentivising (2) – which are the district functions around approving planning applications for housing and for managing the building process. County councils are the dominant partner in enabling growth and therefore in delivering functions (1) and (3). Capital investment is particularly significant for county councils and largely has to be self-funded.

51. Over the last few years, CCN has published a number of reports that explore the significant role that counties play in delivering housing and infrastructure, as well as the wider role they play in place-based growth. Much of this is about investment, but it is also about their influence to attract growth and strategic thinking that ensures investment delivers the best

[3] Department for Communities & Local Government (2010), New homes bonus consultation

value for money and unlocks opportunities for additional growth. We refer to some of these in the text below, but the links provided will take you to each of the reports for further consideration during the consultation period:

- Building for the Future: the role of county councils in meeting housing need, written in partnership with the Town and Country Planning Association
- Counties and Strategic Planning, written in partnership with Catriona Riddell Associates
- Summary of county council support for local planning, written in partnership with Catriona Riddell Associates
- Place-based growth – the role of counties in 'levelling-up' England, written by Grant Thornton
- Place-based recovery – how counties can drive growth post-COVID-19, written by Grant Thornton
- Planning reforms and the role of strategic planning, written by Catriona Riddell Associates

52. In addition to this, in 2019 CCN commissioned Grant Thornton to undertake an analysis of growth-related expenditure in two-tier areas. Although this analysis was submitted to MHCLG as part of our evidence-base to support a new tier split under planned reforms to extend business rates retention to 75%, the evidence remains of direct relevance to this consultation on NHB and therefore we draw on the analysis below.

53. Drawing on this evidence, we summarise the role of county councils against the three criteria CCN believe should be used to determine a new tier split that weight payments more appropriately towards county councils in two-tier areas.

(1) Activity to attract growth (growth-related and economic development expenditure)

54. CCN member councils are key drivers of place-based growth and investment, and it is many of these activities that continue to encourage growth, which brings housing development and employment opportunities to support growing populations. The scale of county councils and their strong leadership enable them to leverage significant investment across their places, which in turn allows them to deliver initiatives that both support existing communities and helps to attract new growth.

55. In considering how Government should rebalance the split, it is therefore important that the proportion of growth-related expenditure, both revenue and capital, by each tier is considered. This should include expenditure related directly to housing and planning, but also critical infrastructure such as roads and transport, and community facilities and amenities such as education, parks and open spaces that ultimately supports sustainable housing development.

56. In 2019 CCN commissioned Grant Thornton to undertake an independent assessment of growth-related expenditure. The analysis was undertaken using net and gross expenditure trends over a three-year period (2015/16 – 2017/18) by each tier to ascertain the relative levels of expenditure. The report looked at both revenue and capital expenditure, with the latter considering the extent of expenditure both including and excluding education expenditure.

57. Annex 1 provides the full analysis undertaken by Grant Thornton on '**Tier split of growth-related expenditure, commercial planning permissions and business rates'**. This includes the full list of expenditure lines classified by Grant Thornton as growth-related.

58. The key findings from Grant Thornton's analysis show;

Revenue Expenditure

- In terms of gross expenditure, the contribution from counties and districts nationally is fairly even, with a slight sway towards greater contribution by districts at 53% and 47% for county councils.

- However, when we consider net expenditure, county councils dominate contributions to growth related services, at 62%. This may be due to districts having a lower net expenditure as a result of greater income generation from these services.

Capital Expenditure

- Overall county councils contribute more significantly in terms of capital expenditure on growth related services and this has been the case since 2015/16. However, the relative contribution of county councils has decreased over time. In 2015/16 counties contributed 56.61% of capital expenditure, however this decreased to 54.78% in 2017/18.

- When considering the inclusion of education expenditure in the analysis, the relative contribution of counties rises to 68% in 2015/16, decreasing to 65.7% in 2017/18.

Capital & Gross Revenue

- Overall county councils contribute more in terms of the sum of capital and gross revenue expenditure on growth related services and this has been the case since 2015/16. However, the relative contribution of county councils has decreased over time. In 2015/16 counties contributed 52.23% of capital and gross revenue expenditure (excluding education), however this decreased to 50.56% in 2017/18.

59. The analysis shows that based on growth-related expenditure shares, county councils have a more prominent role than district councils. Except for gross expenditure, county councils represent a larger share of expenditure on both net and capital. It is only due to declining expenditure by county councils as a result of the demand-led pressures in social care, and increased income from fees and charges for district councils, that has meant that they exceed upper-tier expenditure on gross expenditure.

60. Specifically, when considering capital expenditure, the analysis also shows the relative contribution rises if important infrastructure spending on education is included. Education provision is an essential element of supporting sustainable housing development. By including education, alongside housing, the proportion of growth-related capital expenditure for counties is as high as 65%. It is important to note this analysis does not capture other substantial elements of growth-related expenditure, such as capital and revenue support to LEPs and investment in broadband which counties contribute to substantially.

(2) Activity to deal with growth before or during delivery (planning, development control & strategic planning)

61. The main tool that influences and manages growth is the planning system and development control functions that are led by district councils in two-tier areas. However, county councils also play a significant role in housing growth through their activities, as demonstrated in our report with the Town and Country Planning Association. This report sets out what county councils are already achieving in terms of housing growth, and sets out numerous examples of leadership by pioneering councils who are unlocking the provision of new housing through partnerships and direct delivery. Some examples include:

- Essex County Council, who have a dedicated housing growth unit led by the county with a team with extensive experience of housing and planning to help support the capacity and enhance the skills of the local planning authorities to overcome any challenges in the development process. The unit has been set up to support the work being led by district councils in Essex, and to help deliver the stretching ambitions for housing growth.

- Norfolk County Council, who owns The Norse Group which provides a unique public-public partnership joint venture model, including NorseCare. This delivers the management and operation of residential care homes for elderly people and care services in Norfolk, and has developed a number of care homes since 2011. Collaborative working has helped to inform the preparation of Local Plans for the districts of Norfolk so that they meet the needs of the ageing population, and maximise the opportunities to secure external funding to deliver against agreed shared objectives.

62. More recently, Warwickshire County Council has become the first authority in the country to set up an agreement with Homes England in a pilot scheme that aims to unlock the development of thousands of new affordable and environmentally friendly homes. This follows on from the authority setting up its own housing development company and means that they will benefit from the influence and expertise of the Government's housing accelerator.

63. Whilst planning remains a function of district councils, county councils have increasingly been undertaking additional non-statutory activities to ensure that plans and decisions around growth are joined up, to overcome an increasingly fragmented system to ensure that new and existing communities that are supported by adequate infrastructure. Some have established non-statutory spatial plans with district council partners, such as South West Hertfordshire authorities who are preparing the South West Hertfordshire Spatial Plan. Others, such as Surrey County Council and Norfolk authorities have set up growth boards that bring together local leaders to discuss priorities for growth and ensure joined-up decision making. Many others offer support to their district councils on a range of matters, as evidenced in this report addendum.

64. County councils are using their strategic influence and scale to drive growth and ensure that communities are served by adequate infrastructure and services, despite not having any formal planning powers. It is this 'above and beyond' role that counties play to ensure that development is of high quality that would justify a higher tier split to continue these activities and unlock and encourage opportunities for housing growth.

65. As we set out in our recent report with Catriona Riddell Associates, the overhaul of the planning system that is currently happening offers the opportunity to ensure that spatial planning plays an integral role in supporting long term sustainable growth but also in addressing the immediate challenges around economic recovery. This would give way for

stronger and collaborative place leadership, providing a forum to set a shared vision and narrative, along with the opportunity to 'zoom-out' and set a framework to support sustainable growth and ensure that housing is joined up with infrastructure investment, further incentivising housing growth and ensure that development is sustainable.[4]

(3) Activity to deal with the consequences of growth (infrastructure and services)

66. In the original consultation in 2010, the purpose of the NHB was to help councils manage the "strain on public services" caused by housing development: the public "see increased competition for scarce resources from the people who move into new homes". Whilst the district council might make the planning decision, it is the county council that is responsible for making sure that the infrastructure and services are in place – both for new residents and to support existing residents.

67. As we know from recent public attitude surveys, communities are more resistant to housing development if they believe that it will have an impact on local infrastructure and services. As infrastructure authorities, county councils are responsible for providing education facilities, social care, transport services and roads, libraries and waste disposal, and they should benefit more than they currently do as a direct result of development taking place in their areas.

68. As shown above in Grant Thornton's analysis, county councils account for at least half the revenue and capital expenditure on services that ultimately deal with the consequences of housing growth. In some areas, such as capital expenditure including education, county councils are responsible for a considerably higher degree of expenditure than district councils. Only some of this expenditure is directly funded by central government and the 20% share from NHB makes a very small contribution.

69. Beyond core service expenditure, CCN reports to date on housing and place-based growth have demonstrated that county councils are strategic and operate in wider Travel to Work Areas (TTWAs). Infrastructure and planning have to go beyond district council boundaries – and this is the role of the county council. They have a significant role in providing significant infrastructure that supports development and mitigates the impact of growth, and are doing more to align housing growth and infrastructure. For instances, just three examples from our recently published work:

- Nottinghamshire County Council, with funding secured after a strong campaign to government, has undertaken significant investment in one if it's major roads – the A46 corridor – which aims to open up huge development opportunities, connect goods to market, improve journey times and provide better employment links for residents.

- Essex County Council used their £318m Housing Infrastructure Fund allocation to lead and deliver major infrastructure projects, including a new railway station, a bypass, a new road link and a rapid transport system. These projects will help improve connectivity and public transport choice for residents, improve air quality, and support the growth of North Essex.

- The Hertfordshire Growth Board, are planning for a new urban quarter focused around a major transport hub. It will deliver major regeneration, including a thriving town centre

[4] See more on our proposals, including a video explaining our proposed reforms here https://www.countycouncilsnetwork.org.uk/zooming-out-the-benefits-of-strategic-planning/

and mixed-use neighbourhood with 3,000 new homes and a further 7,000 homes around the station. Hertfordshire County Council have committed to enhancing the local infrastructure of the area, including environmental and educational, to optimise the level of development to be delivered in a highly sustainable location.

70. Whilst schemes such as the ones above will often require additional investment above and beyond the capital investment that county councils make, it is through the strength of their strategic leadership, investment, influence and action that has enabled them to deliver a broad range of activities that has enabled growth.

71. Our reports listed above have shown very clearly the enabling role that county councils play, and with a higher share of funds through the NHB, they could do much more to enable and attract additional growth by using the funding strategically. However, the quantum available should also match the financial impact of housing development on county councils (and local government more widely). County councils face significant funding gaps to deliver the infrastructure that is required – with Grant Thornton noting that there is an estimated £4 billion infrastructure gap per county authority.[5]

72. Initiatives such as the Housing Infrastructure Fund – of which the 'Forward Funding' strand for strategic and high-impact infrastructure projects is allocated to county councils, acknowledging their enabling role – has helped to bridge the gap for some authorities, it is still not guaranteed long-term funding, and a higher share of the NHB would provide greater certainty to counties, enabling them to deliver more supporting infrastructure, which in turn will also act as a catalyst for further growth.

73. The current system of developer contributions also supports our arguments to offer a higher share of the NHB to county councils in order to support invest infrastructure. Once again, in two-tier areas, the developer contributions system is administered by district councils and whilst the system was never designed to bring in the full amount of money to deliver necessary infrastructure, county councils do not receive a proportionate level of funding.

74. Whilst the Government has committed to reforming the development contributions system, CCN member authorities have concerns over the proposed replacement – the Infrastructure Levy - believing that it will not be able to respond to the nuances of local markets, and will again leave lower value areas behind as they will be unable to raise as much as their higher-value counterparts. With increasing infrastructure funding gaps, we have called for reforms to the developer contributions system which would give county councils a much stronger role in rate setting and negotiation. We believe that giving authorities across county areas the ability to pool developer contributions would allow much more strategic infrastructure investment decisions to be made. With the right governance arrangements in place, this could also include funding such as the NHB, and could be used to both enable and attract growth, in addition to managing the consequences of growth.

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?

---

[5] Grant Thornton (2020), *Place-based growth – the role of counties in 'levelling-up' England*

75. CCN supports the continued inclusion of both these two measures within a reformed NHB. Both are important outcomes that should be incentivised and rewarded. However, it is essential to balance funding for these incentives with the key objectives, which are really around providing funding for the impact of house-building.

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

76. The argument in favour of using the 3-year average is that it protects authorities from year-to-year volatility in housing-building rates. However, this is much less of an issue for county councils and unitaries than it is for district councils. County authorities have the financial scale to be able to cope with volatility. Furthermore, volatility is much lower for counties because growth is measured across a much wider area. Growth rates tend to be more even as a result.

77. CCN does not, therefore, have a strong view about whether either one-year or multi-year averages should be used to measure growth. We do think that this shows that, if county councils had a larger share of the funding from NHB, the question would be much less important.

<u>Option A – Raising the baseline</u>
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?

78. Option A is essentially a re-working of the current system but with either higher thresholds (where growth would have to exceed between 0.6% to 1.0% rather than the current 0.4%).

79. Based on recent performance, county areas in general would benefit from higher thresholds: county areas would receive a larger share of the available funding. But the problem is that it would exclude those county authorities with lower growth rates. CCN would not support this because there is clear evidence that authorities with lower growth rates still have to manage the implications of housing development. These authorities should still be included within the funding scheme.

80. A higher threshold would disadvantage some county areas that have constrained development opportunities. Both the "green belt" and national parks limit the scope for housing growth for many of our county members. The thresholds should be designed so that every authority has a reasonable opportunity to attract NHB funding.

81. Higher thresholds would result in lower overall incentive payments unless the reward per unit is increased massively (concentrating rewards on fewer authorities). CCN does not support increasing thresholds (see above) and, for the same reasons, would not support

increasing the rewards for those above the threshold. This would unfairly concentrate funding in fewer authorities – and exclude many other deserving authorities from funding.

82. We do, however, support maintaining the current value of NHB (£900m). Indeed, there is a very strong argument for increasing the funding available and for directing it towards the county functions that are so important in support housing development; as long at the additional funding was not top sliced from other resources. A higher threshold for growth is not the right way to achieve this.

<u>Option B – Rewarding improvement: setting the payment threshold by reference to a local authority's past performance</u>

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?

83. CCN does not support the proposals in Option B for similar reasons to our opposition to those in Option A. Having a threshold based on past performance would, again, limit the number of authorities who are eligible for NHB payments. It would mean that many authorities – with genuine needs as a result of housing development – would not receive any funding.

84. Option B is even less attractive than Option A. It takes as its premise that authorities can continually exceed their previous housing growth rates. This is clearly not a viable assumption. Previous growth rates could have been boosted because of specific development schemes that will not continue or cannot be repeated in future years. Option B would effectively exclude these authorities because of their past achievements.

85. There is merit in having thresholds that do reflect local circumstances, however. It is clear that some inner London boroughs are able to deliver very high rates of housing growth whilst others (including many county areas) will only be able to achieve lower growth rates. We would encourage the Government to explore other options whereby thresholds can be set in a way that reflects both local opportunities and realistic local plans. CCN would be happy to work with the Government to design a threshold that meets these objectives.

<u>Option C – Hybrid approach: rewarding improvement and high housing growth</u>

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?

86. CCN does not support the "hybrid" approach because it does not address the fundamental weakness of either of the two constituent measures. In fact, by proposing a "hybrid" approach the Government is tacitly recognising that there are major flaws with both Options A and B. It would be better to design a threshold that is realistic and reflects local circumstances rather than clumsily pairing together two inappropriate methodologies.

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?

87. This approach would provide greater rewards for authorities with lower land values, and would use NHB to top-up the new infrastructure levy. CCN has some sympathy with this approach because the current NHB methodology rewards high land values and places that already have large amounts of growth. For instance, Tower Hamlets will receive £17m in 2021-22 (and has received £207m over the lifetime of the NHB). Many other inner London boroughs have been similarly well-treated. This is unfair on the rest of the country, and is the opposite of "levelling up". Inner London has not got a problem with land values and people wanting to build – so it does not make any sense using NHB to incentivise house-building in inner London.

88. The difficulty in giving a view on the Option D is that the methodology for the new infrastructure levy is not yet known. As noted in paragraph 74 CCN has concerns over the current proposals regarding the Infrastructure Levy, which would need to be addressed before serious consideration was given to this proposal.

89. CCN supports the principle of using NHB to top-up the amounts that local authorities receive from the infrastructure levy. County councils deliver the majority of the infrastructure and services following development, and our members would welcome additional funding to support these functions. Whilst topping up lower value areas is a good starting point, we would want full analysis of which areas do need topping-up. Clearly there is less need for topping-up in inner London than in other parts of the country. Furthermore, the cost of providing new infrastructure is also less costly in areas with lower land values. It is important that the additional funding made available through this route is sufficient to make a difference and that it goes to the tier which is making the investment.

90. Before taking a firm position, we do need to know more about how the new infrastructure levy would work. County councils have concerns about the quantum that could be generated by the new levy and on ensuring that there is a fair split in two-tier areas. CCN is keen on the idea of forward funding of infrastructure, and allowing councils to borrow based on forward funding of income from the infrastructure levy. Sensible combining of the new infrastructure levy and NHB could really help county authorities to support sustainable housing development.

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?

91. CCN supports the policy objective of increasing the uptake of Modern Methods of Construction (MMC), but we do not have any information about the extent to which local authorities are able to encourage or require developers to adopt MMC.

92. If there is going to be a link between MMC and the new NHB, then the incentive should be restricted to only those authorities who are able to influence the take-up of MMC, and those authorities who do not chose or are unable to progress MMC should not be penalised. We therefore disagree with the proposal to make it condition of receiving the bonus that a percentage of net additional homes should be built using MMC. It would also be inappropriate to include those without a clear role in the take-up of MMC, such as county councils.

93. Generally, CCN's view is that the incentive in NHB needs to be clearly focussed. By adding an additional factor (in this case, MMC) the incentive-effect is weakened. We would support making sure that the NHB is more able to support the functions carried out by local authorities, and particularly those around the delivery of the infrastructure and services required by housing development.

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 by 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?

94. CCN does not agree with the proposals to link the payment of the NHB with the progress or adoption of local plans. We agree with the concept of a plan-led system, but local authorities have been under constant pressure to update local plans in order to accommodate changes to national planning policy, and we believe it would be unfair to impose sanctions on authorities when these changes have been outside their control. It would be particularly unfair to penalise county councils in this scenario, who do not have control over local plans.

95. In addition, CCN unitary authority planning departments have seen reductions in funding in recent years, which has led them to strip back planning staff, and in particular planning policy departments. Local planning authorities are also assessed, and penalised, against housing delivery through the Housing Delivery Test and introducing an additional penalty as suggested would be counterproductive.

96. Finally, even without an up-to-date local plan, an authority is likely to attract growth and receive applications for planning permission for new development. Although there may not

be an up-to-date plan in place to test applications against, it is still important that authorities are able to undertake activity to encourage and support growth, and limiting access to the NHB would limit authorities ability to do this.