Supplementary Estimate 2014-15

Please find responses to your questions on the Supplementary Estimate for 2014-15 below.

1. DCLG Communities Estimate

In terms of capital DEL, we note that the transfer of £1.17bn in Housing Programmes spend from 2014-15 to 2015-16 has been netted off through increases to budgets in other areas.

These include:

- a reserve claim (from the Treasury) of £448 million for housing and the Regional Growth Fund;
- a transfer from BIS of £202 million for the Regional Growth Fund; and
- £146 million transfer of budget from resource to capital mentioned above for various projects such, as amongst others, Enterprise Zones (£113 million).

There is little detail within the supplementary estimate, however, of what these extra funds will be spent on. Given they make up 15% of Capital DEL (initial budget, £5.158 billion), it would be useful to have more information.

Will the Department clarify what this extra money will be spent on?

This ‘extra money’ relates predominantly to Capital funding for Regional Growth Fund and investment in Enterprise Zones. Additional funding for these programmes was expected and agreed in principle with Treasury at the start of 2014-15.

The Regional Growth Fund supports eligible projects and programmes that are raising private sector investment to create economic growth and lasting employment. Since its launch in 2010 it has invested £2.85 billion to help local businesses grow and take on more staff across England.
For every £1 invested through the Regional Growth Fund, the private sector has put in £5.50. The total investment of private sector support is expected to be £16 billion. Over 100,000 jobs have already been created and a further 480,000 are expected by the mid-2020s.

Businesses across all industrial sectors benefit from the funding with over £1.1 billion invested in manufacturing including:

- £364 million in the automotive industry
- £100 million in aerospace
- £104 million for low carbon enterprises

Enterprise Zones create jobs and boost businesses in 24 areas across England. Since April 2012 Enterprise Zones have created over 12,500 jobs, attracted over 430 businesses and secured £2 billion of private sector investment.

The resource to capital switch was undertaken to align budgets with the expected split of expenditure on the Regional Growth Fund in 2014-15.

2. DCLG Local Government Estimate

In terms of DCLG and Local Government Resource AME, we note the creation of a £689 million budget for Business Rates Retention "Deficit on collection" for outturns in 2013-14. But there is no such budget in 2015-16.

Will the Department clarify why a budget for “Deficit on Collection” is needed in 2014-15 but not in 2015-16?

The Deficit on Collection Fund figures are driven by local authority returns received at the end of January for the year ahead and at the end of September for the year ending the previous March. The £689m was to cover £298 million of Deficit on Collection Fund payments in 14-15 as reported in January 2014 for the year ahead plus a further £390m of Deficit on Collection Fund payments as reported in September 2014 in respect of 2013-14. There will be Deficit on Collection Fund Payments in 15-16 but we do not know the final number as this depends on local authority returns. There is existing provision for these payments within our AME budgets and further budget cover will be sought, if required, at the Supplementary Estimate 2015.

3. Housing

We note that in net terms DCLG has reduced its spend on Neighbourhoods NDPB Capital DEL by £997 million for 2014-15. This budget contains the majority of the housing budget, and includes funding for programmes such as Help to Buy, Affordable Housing Programmes and a range of house building projects.
The major change which has caused this movement is the transfer of £1.16 billion from 2014-15 to 2015-16 through a budget exchange agreed with HMT. Movements making up this exchange include:

- deferrals on ‘Help to Buy’ of £240 million (15%);
- deferrals on Local Infrastructure Fund of £88 million;
- net reductions on ‘Build to Rent’ of £587 million (87%) over two years (described in the Secretary of State’s letter to the Committee of 4 February as a “re-profiling of the budget over 3 years to support contractual structures of individual deals”).

Will the Department explain why so much money is being deferred to future years?

a) Does this mean the Department is unable spend within the terms of each scheme the money it has been allocated for these programmes?

The department is re-profiling its Capital DEL allocations to ensure that budgets for housing and local growth programmes are in line with the likely pattern of expenditure. This represents good financial management on the part of the Department, ensuring that contracts supporting housing delivery provide the best value for money for government and deliver the optimum number of outputs.

Since Help to Buy was launched at Budget 2013 the equity loan scheme has boosted housing supply with almost 43,000 new build completions, supporting first-time buyers across the country to get onto the property ladder.

b) Is the ‘Build to Rent’ policy failing, given 80% of its funding has been “reprofiled”/deferred?

The Build to Rent Fund is one of a range of measures the Government introduced to support the growth of an institutionally funded, purpose built, Private Rented Sector. The fund has demonstrated the Government’s commitment to creating a new market for investment in a new kind of Private Rented Sector and has acted as a catalyst in creating new Private Rented Sector homes, giving the sector the kick start it needed. The fund is currently contracted to the value of £232m which will deliver over 3,000 homes with the remainder of the fund expected to be committed within 2015. Accurately profiling the drawdown of the fund is difficult as the contracting process and delivery of the development are market led and subject to the usual uncertainties inherent with getting large scale developments off the ground. Notable challenges include securing requisite planning consents which can be more difficult for Private Rented Sector developments, and agreeing the deal structure with other financiers (Build to Rent funds 50% of cost as a maximum meaning other finance is required).

Further to this, the Homes and Communities Agency is structuring deals to ensure that Government exposure to loss remains minimal. This means that, as a rule, all equity and junior debt will be invested ahead of any drawdown of the Government loan and all conditions precedent must be fully met. I expect to commit the fund in full but expenditure will be drawn down later than originally anticipated.
4. Stock transfer

The supplementary estimate also notes that due to a change in "Stock Transfer demand" (stock transfer is the voluntary transfer of ownership of a local authority's tenanted and leasehold homes to a private registered provider in return for a payment for the value of that stock) DCLG has reduced its Capital AME budget by £185 million (43%) in 2014-15 and £558 million (84%) in 2015-16.

**Why has the demand for stock transfers fallen so dramatically?**

We have given local authorities the freedoms and help that they needed in order to properly maintain and invest in their housing stock:

- In 2012, we introduced self-financing, giving local authorities the freedom to plan their investment in their housing businesses in the long term. On average, stock-holding authorities have 15% more to spend on managing and maintaining their homes than under the previous system.

- Between 2011-2015, we have provided £2.26 billion in decent homes funding, with a further £160 million in 2015/16.

- Local authorities have reported that the number of non-decent council homes in England has reduced from 291,600 in 2010 to 145,900 in 2014, and is expected to have further reduced to 113,000 by April 2015.

We believe this is why demand has fallen in recent years, although it does not mean that stock transfer is no longer useful. We use Capital AME provision to fund debt write-off for stock transfers precisely because demand is variable and unpredictable. We currently have three large scale stock transfer cases that have recently completed or are due to complete.

The first of these, Gloucester, completed on 17 March, and has been supported by £55.8 million Capital AME. The second, Salford, completed on 24 March and is being supported by £65.1 million Capital AME. The third, Durham, is now expected to complete in mid April 2015, subject to the necessary consents and approvals. DCLG will request additional funding as part of the Main Estimate 2015. Durham will be supported by up to £214 million Capital AME. This transfer will also require a Contingencies Fund advance, which has been approved by HM Treasury and a Written Ministerial Statement has been laid in the House on 25th March as part of this process. Additional expenditure in 2015-16 will be reflected by an underspend in 2014-15.

5. Affordable Homes Programme

The original intention was to allocate in the first instance up to 75% of Affordable Homes Programme Funding for 2015-18. But only 63% was bid for.
Why has less of the fund been bid for than originally anticipated? Do you anticipate that all the money allocated to the fund will be spent? Has any modelling been carried out on the ability of housing associations to bid for the fund

For the 2015-18 Affordable Homes Programme, funding was held back for allocation through continuous market engagement. This means that not all resources are allocated immediately but are given to schemes as plans are developed. This approach was based on feedback from delivery partners that it aligned with the way in which development opportunities arise, allows schemes to be worked up to fully meet local priorities and needs, and is particularly useful in working up more complex schemes, which may take longer to come to fruition. The Homes and Community Agency’s prospectus stated that they would allocate up to a maximum of 75% of the funding following initial bids and initial allocations were announced in July 2014 for £886 million.

Since bidding reopened in October 2014, allocations worth £39.3 million have been agreed by the Homes and Communities Agency. It is anticipated that the volume will increase in the coming months and that over the three year programme the budget will be allocated.

Our assessment of delivery and spend over the 2015-18 programme, as announced at the 2013 Spending Review, was based on the expectation that levels of grant to providers would be broadly in line with levels in the current programme and providers would continue to make use of flexibilities such as disposals and conversions to support new supply.

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