Ministry of Housing,
Communities &
Local Government

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Ministry of Housing, Communities and Local Government
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Mr Clive Betts MP
Chair, Housing, Communities and
Local Government Select Committee
BY EMAIL

21st February 2019

Dear Clive,

Follow up to Select Committee hearing on the Department's Annual Reports and Accounts

Thank you for inviting me, Jo Farrar and Jeremy Pocklington to give evidence to your Select Committee's hearing of 21 January 2019 on the Department's Annual Report and Accounts.

There were some questions during the session on which we agreed to provide further information to the Committee in writing. I therefore attach a short note in response to these requests.

With regard to the points raised on public parks during the hearing, I note that you have written separately on this to the Minister for Local Government as part of an ongoing correspondence. Minister Sunak will write to the Select Committee in due course in response to your request for additional information and we have not therefore addressed this in the attached note.

MELANIE DAWES

Follow up to the Communities and Local Government Select Committee hearing on MHCLG Annual Report and Accounts (21 January 2019)

1. Following the Committee's hearing on 21 January 2019 on the Department's Annual Report and Accounts, this note provides the detailed follow up information requested by the Committee during the session.

A) Change in Core Spending Power in 2019-20: Variation between local authorities

2. As part of this year's Local Government Finance Settlement, the Government announced a real-terms increase in resources available to local authorities. Total core spending power for England is increasing by 2.8% in 2019-20 - from £45.1 billion in 2018-19 to £46.4 billion in 2019-20. At local authority level this varies from a maximum increase of 8.4% for Runnymede to a maximum decrease of -4.4% for Gloucester.

3. The settlement includes extra funding for local services with a strong focus on greater support for adult and children's social care. It also supports and rewards economic growth and sets out reforms for a sustainable path for the future funding model for local government.

4. Funding baselines for every authority are determined by an assessment of the relative needs of areas, including measures of deprivation. Average spending power per dwelling for the 10% most deprived authorities is around 22% more than for the least deprived 10% in 2019-20. For 2019-20, funding will be allocated in a way that ensures councils delivering the same set of services receive the same percentage change in 'settlement core funding' for key services.

5. In response to a number of councils' concerns over rural services funding, the level of Rural Services Delivery Grant in 2019-20 will increase by £16 million to £81 million, in line with the levels of grant funding provided in 2018-19. This recognises the extra costs of providing services in rural communities.

6. Our analysis of the range of individual local authorities' core spending power uses the figures from the 2019-20 final settlement. Local authorities which have undergone restructuring in 2019-20 do not have a defined change in core spending power in 2019-20 so are excluded from this analysis.

7. The tables below show the top 20 authorities with the greatest increase and the bottom 20 authorities with the greatest decrease in core spending power.

8. **Table 1: Top 20 local authorities with the greatest increase in core spending power in 2019-20**

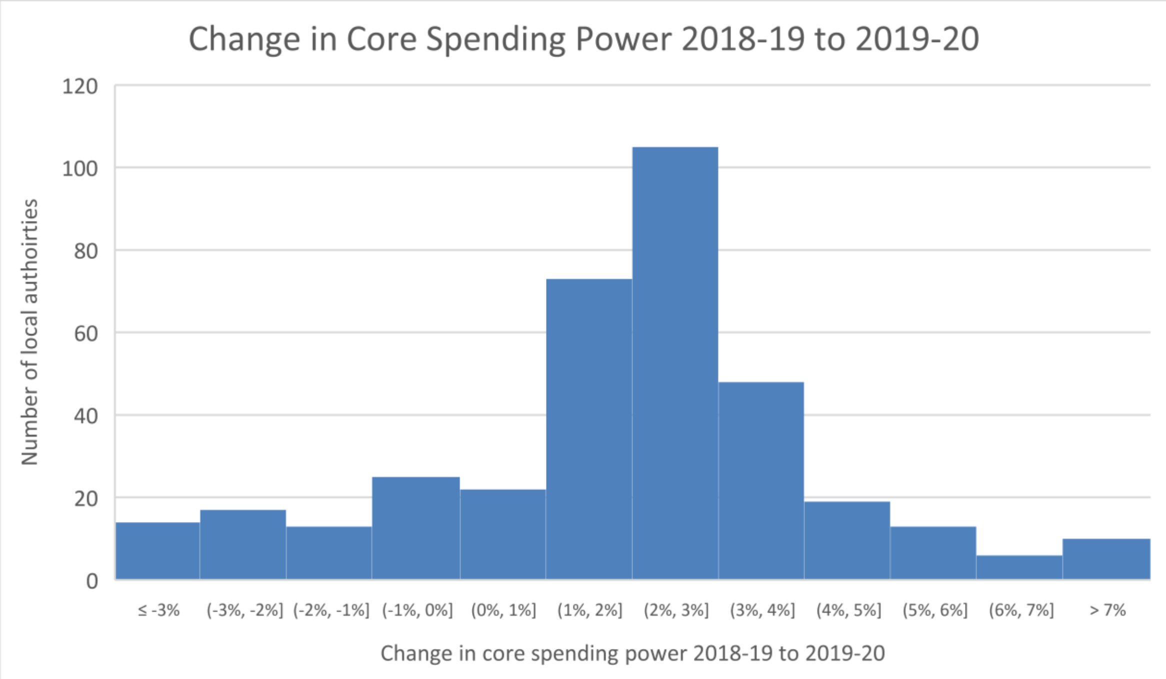
Local Authority	2019-20 CSP Increase	Class
Runnymede	8.4%	Shire district
Stratford-on-Avon	8.0%	Shire district
Vale of White Horse	7.8%	Shire district
Cherwell	7.5%	Shire district
Warwick	7.4%	Shire district
Chelmsford	7.4%	Shire district
Lichfield	7.4%	Shire district
Maidstone	7.3%	Shire district
Brentwood	7.3%	Shire district
Daventry	7.1%	Shire district
Stafford	6.9%	Shire district
South Northamptonshire	6.4%	Shire district
Blaby	6.3%	Shire district
GLA - all functions	6.3%	GLA
Wokingham	6.3%	Unitary authority
Dartford	6.1%	Shire district
Canterbury	5.9%	Shire district
Maldon	5.8%	Shire district
Eastleigh	5.7%	Shire district
Cambridgeshire	5.7%	Shire county

9. **Table 2: Bottom 20 authorities with the greatest decrease in core spending power in 2019-20**

Local Authority	2019-20 CSP Decrease	Class
Gloucester	-4.4%	Shire district
Mansfield	-4.2%	Shire district
Ashfield	-4.1%	Shire district
Huntingdonshire	-4.0%	Shire district
Gedling	-3.9%	Shire district
Erewash	-3.8%	Shire district
Bassetlaw	-3.8%	Shire district
Newcastle-under-Lyme	-3.4%	Shire district
Staffordshire Moorlands	-3.3%	Shire district
South Staffordshire	-3.3%	Shire district
West Lindsey	-3.2%	Shire district
Bolsover	-3.2%	Shire district
Great Yarmouth	-3.1%	Shire district
Forest of Dean	-3.1%	Shire district

Lincoln	-2.9%	Shire district
Chesterfield	-2.9%	Shire district
Thanet	-2.7%	Shire district
Torridge	-2.6%	Shire district
East Cambridgeshire	-2.6%	Shire district
East Lindsey	-2.6%	Shire district

10. The histogram below shows the distribution of the change in core spending power in 2019-20 for local authorities. The core spending power of 62% of local authorities, which represents 81% of total core spending power, will increase between 1% and 4%.



B) Business Rates Retention Pilots

11. As part of our work towards reform of the business rates retention system, the Government has launched business rates retention pilots in a wide range of areas across the country. These pilots are informing our policy development, for example in relation to how pools of authorities are using shared growth and how pooled authorities mitigate against volatility in income. An evaluation of the ongoing pilots is already underway and we expect that a report on the findings will be published later this year.

12. 100% business rates retention pilots in five devolution deal areas were first launched in April 2017. In July 2018, the Government confirmed that these pilots would continue to operate on the existing basis in 2019-20 (see Local Government Finance WMS of 24 July 2018).

13. In April 2018, 100% business rates retention pilots were launched in 10 further areas across the country. The 10 pilots were selected following a competitive bidding process and in addition to these, London also became a 100% business rates retention pilot following separate negotiations with the Government (see transcript of 19 Dec 2017 on Local Government Finance Settlement). The 2018-19 pilots will conclude on 31 March 2019.

14. In April 2019, a further wave of 15 new 75% business rates retention pilots will be launched to operate for the duration of the 2019-20 financial year. London will also continue to pilot business rates retention at the level of 75% in 2019-20 (see transcript of 13 December 2018 on Local Government Finance Settlement).

15. The pilot programme is helping us test proposed reforms ahead of a new 75% business rates retention system being introduced in 2020-21. As such, we would expect the new 75% business rates retention pilots to aid our understanding of how we transition into the proposed new business rates retention system in 2020-21. The pilots are also providing an opportunity to test technical aspects of the business rates retention system (such as tier splits and how pooling interacts with the system) as well as authorities' administration (e.g. how they tackle avoidance), technical planning for implementation, system maintenance; and how the accounting, data collection and IT system will work.

16. An evaluation of the learning from the ongoing business rates pilots is already underway and we expect a report on the findings of the 2017-18 and 2018-19 pilots to be published later this year. The Government will also undertake a qualitative evaluation on the progress of the new 75% business rates retention pilots. Plans for this are currently under development.

17. Early findings from the 2017-18 pilots have indicated that:
    - Pilot areas with high growth potential were hopeful that they would generate additional business rates growth as part of being a pilot;
    - Pilot areas with lesser growth potential were keen to be involved in informing the development of the future business rates retention programme to ensure wide representation of areas across the country;
    - There were concerns about the level of risk from business rates appeals under greater business rates retention.

    More detail on the early findings from 2017-18 pilots is published on the LGA website (see link).

18. Early findings from the 2018-19 pilots indicate that:
    - Pilot authorities have mixed plans for the use of additional business rates growth that is likely to result from participation in the pilot. Some areas are planning to use the additional funds to streamline existing development plans

and therefore contribute to future growth of the wider pilot pool. Some pilot authorities also have plans to use additional funds to promote financial sustainability;
- Formalisation of existing casual working relationships has seen benefits in shared working on a day to day service level, particularly across unitary authorities;
- Deeper collaborative working arrangements have also led to consistency of recording, projecting and forecasting across pools, as well as encouragement to ensure maximum collection rates in each pilot pool member authority.

19. The Government is taking the learning from pilots into account in the design of the future business rates retention system. In particular, the Business Rates Reform consultation of 13 December 2018 seeks views on proposals for sharing risk and reward, managing volatility in income and setting up the reformed business rates retention system. The consultation will close on 21 February 2019 (see link to consultation).

C) Local Authority Sustainability Assessment

20. The Committee was keen for more detail on the specific framework and metrics we use as part of our assessment of local government financial sustainability.

21. The Department's assessment of sector sustainability is based on an overall understanding, drawn from a range of sources, of whether the sector has the capacity to deliver the services required by Parliament. This is beyond an arithmetic judgement, with data forming one input into the Department's assessments across a range of indicators and information. On a macro level, we consider how much funding is in the system as a whole when set against scenarios for cost drivers, demographics and opportunities for efficiencies; on a micro level we look at leadership, governance, overall capacity and financial indicators for individual authorities.

22. Assessment of financial sustainability and spending pressures forms one part of this overall judgement. Some services, for example Adult Social Care and Children's Social Care, have been given statutory underpinning by Parliament and the responsible policy department provides significant oversight due to the nature of the service offered. As these services occupy a significant proportion of the budgets of upper tier councils, the Department monitors the proportion of spending on them and other 'inflexible' areas such as debt servicing. If the proportion becomes too high, the capacity of authorities to respond to events and to deliver locally-led non-statutory services, that are key for local communities, becomes limited.

23. We have several tools which we use to assess financial risk, including the Local Authority Sustainability Tool (LAST), which looks at risk at a sector level, and others which consider the relative risk of individual local authorities. As set out in paragraph 4.30 of the NAO report[1] into financial sustainability, the two metrics in the LAST relate to expenditure on inflexible areas of spending (for example Social Care and debt servicing costs) and reserve levels, relative to core spending power. These are referred to as the responsibilities metric and reserves metric respectively.

24. In considering the sustainability of individual authorities we supplement the responsibilities and reserves metrics with six additional metrics that cover historical changes and forecasted levels to 'inflexible' spending areas and reserves, alongside unplanned changes in reserve levels. More generally, we speak to a wide range of stakeholders such as CIPFA, the LGA and credit rating agencies to test our understanding of key pressures and to ensure that the metrics and cost drivers that form part of our assessment of sustainability are robust and cover an appropriate range of risks and scenarios.

25. We have also been working to deepen our intelligence sharing with a broader range of government departments, as well as within MHCLG itself, to develop a more detailed understanding of local authorities' performance, including service pressures across the full range of local services; and to fully calibrate risks.

D) <u>Help to Buy: How HtB sale prices compare to the wider new build market</u>

26. The Committee was interested in how Help to Buy (HtB) sales prices compare to the wider new build market, particularly in light of press coverage of this issue. The Government has commissioned two independent evaluations of the scheme which have considered this alongside other aspects of Help to Buy. The latest evaluation ('Evaluation of the Help to Buy Equity Loan Scheme 2017', October 2018, Christine Whitehead, Peter Williams, Ipsos MORI and the London School of Economics; Ministry of Housing, Communities and Local Government) found that, contrary to reports in the media, in all regions Help to Buy prices are below average new build prices.

27. Section 2.2.4 of the evaluation looks specifically at the scheme's impact and interaction with house prices. It found that:
    - Since the beginning of the scheme, average house prices have at all times been higher than the average price of Help to Buy properties. In the first quarter of 2017, which is the latest available data in the evaluation, the overall house price average was £288,000 while the Help to Buy average

[1] National Audit Office: Financial sustainability of local authorities 2018. https://www.nao.org.uk/wp-content/uploads/2018/03/Financial-sustainabilty-of-local-authorites-2018.pdf

was £271,000. However, the gap has narrowed over time as the prices of Help to Buy properties have moved in line with new build prices in general.

- In the context of Help to Buy the more immediately relevant comparisons are between new build and Help to Buy properties. Looking at England as a whole the new build average price has been well above the average for Help to Buy properties for the whole period since the scheme was introduced. In the first quarter of 2017, the average price for a new build home was almost £340,000 compared to £271,000 for Help to Buy properties.
- The evaluation also found there was not a positive relationship between the prevalence of Help to Buy and the growth in new build prices at the local authority level, meaning that a greater number of Help to Buy properties in an area did not result in higher new build prices in that area.

28. The scheme is designed to ensure that properties are sold at market value. In the current process, the purchaser's solicitor/conveyancer provides Homes England with a legal undertaking (via the Help to Buy Agent) that the purchase price does not exceed the Market Value. This is accompanied by either the valuation report, or by the mortgage offer letter. Homes England uses the mortgage lender's valuation to assess whether the home is suitable security for its investment.

29. Homes England are content that this process provides sufficient assurance on the valuation of the property. This approach if required provides redress against both the solicitor and potentially the valuer, who has a duty of care towards all who may be relying upon the valuation, including Homes England.

30. Help to Buy: Equity Loan transactions are now around a third of new-build sales, yet they remain a small proportion of overall housing sales (less than 4%), so the scheme is unlikely to have a significant effect on house prices more generally. The latest independent evaluation (published October 2018) found no evidence of a significant impact on prices overall.

E) <u>Help to Buy: Modelling of risks and credit around falls in house prices</u>

31. The Committee was keen to understand more about the modelling that the Department has done on the risks and exposure of the Help to Buy programme to falling house prices. The prevailing conditions of the UK economy, especially UK house prices, significantly affect the valuation of the Help to Buy assets. Homes England performs a sensitivity analysis that measures the change in fair value of the equity loans for hypothetical changes in market prices.

32. At 31 March 2018, in the cases of modelled reductions in house prices shown in the table below, the valuation of Help to Buy portfolio would change as follows:

Modelled change in house prices	Estimated portfolio value (£m)	Incremental change in fair value (£m)	Incremental change in fair value
-25%	5,101	(3,548)	-41%
-10%	7,547	(1,102)	-13%
-5%	8,155	(494)	-6%
-1%	8,557	(92)	-1%
0%	8,649	-	0%
1%	8,739	90	1%
5%	9,085	436	5%
10%	9,516	867	10%

33. The valuation gains and losses would require the Resource Annual Managed Expenditure (RAME) budget to cover any negative valuation movement in the Department's accounts. A RAME budget is set based on the impact of a 4% decline in house prices, so an unexpected movement in house prices beyond this would require RAME in excess of that budgeted. The risk of breaching our RAME budget is considered low, given the opportunity to adjust this at main and supplementary estimates.

34. Losses will only crystallise when the equity loan is redeemed, either via a sale of the house or a prepayment of the equity loan, or in the event of a default on the first charge mortgage. The scale of crystallised losses will depend on consumer behaviour, and that of the banks holding the first charge. Income from Help to Buy is passed straight through to HM-Treasury.

35. As you would expect, we monitor the housing market, and are ready to respond as necessary to a change in the economic climate. Since 2013, the Department has been developing its financial risk management capabilities to identify, manage, monitor and stress test the financial risk of the portfolio. Each year we run a stress testing exercise on the entire portfolio, using standard Bank of England scenarios that model major house price falls and associated economic shocks, so that the response plans are in place should those eventualities come to pass. Market risk was reviewed and disclosed on pages 99-100 of the Annual Report and Accounts 2017-18. We continue to strengthen our capability in this area.

F) <u>Mix of affordable and social homes resulting from removal of the HRA cap</u>

36. The Committee asked what proportion of the 10,000 new homes that are expected to be built as a result of the abolition of the Housing Revenue Account (HRA) borrowing cap would be for social rent and affordable rent.

37. The Government has not estimated what proportion of the 10,000 new homes that it expects to be built annually from 2021-22 will be for social rent, and what proportion will be for affordable rent. This is because it is for each local authority to determine the housing that is required in its area to meet local needs.

38. Local authorities can build new homes by using their borrowing flexibility alongside either their Right to Buy receipts or a bid for grant from the Affordable Homes Programme. Additionally they also have flexibility to support developments through their own resources and section 106 contributions. We will continue to collect, and report on, a range of house building data, including how many new homes local authorities are delivering.

G) <u>Value for money evaluation of Voluntary Right to Buy</u>

39. With regard to the Committee's interest in the value for money (VFM) analysis for the Voluntary Right to Buy, we can confirm in broad terms that the scheme does represent VFM. We will provide you with an explanation of the elements of the value for money case in writing in the Spring.

40. The Government is fully funding the discounts being offered to tenants, so the participating Housing Associations will be able to invest this money in building new affordable homes. We expect there to be economic benefits from both the sale and replacement homes. These benefits are in the form of distributional benefits, land value uplift and health benefits and will be explained in the forthcoming note.

41. It should be noted that the VFM case and the 2020 pilot evaluation that we mentioned to the Committee are different things. The VFM case refers to work we have done in the Department to assess that the policy represents VFM. The evaluation of the pilot – due to be published in Autumn 2020 - will cover all aspects of the design and delivery of the policy and will inform decisions that are made about the wider rollout of the VRtB. Most critically, the evaluation will look at key aspects of the voluntary agreement with housing associations which were untested in the initial, small-scale pilot. This includes testing portable discounts for tenants who cannot buy the home they are in, and one-for-one replacement of the homes sold.

H) Proportion of Right to Buy homes now in private rental sector and associated costs

42. In light of press coverage of the recent report by Tom Copley AM of the number of Right to Buy (RtB) homes in London now in the private rented sector, the Committee was keen to see any analysis we have done. Government does not collect data on either the proportion of Right to Buy homes now used as private lets or the proportion or amount of Housing Benefit (or the Housing element of Universal Credit) that is paid in respect of ex-LA homes. The Right to Buy is intended to provide a way for council tenants to enjoy all the rights and benefits of home ownership on the same footing as any other home owner. This includes the right to rent out their home if, for instance, they need to move for work or family reasons.

43. Mr Copley's report states that its methodology provides incomplete figures. To provide complete figures for this would place a burden on central Government, local authorities and buyers. It would require buyers of Right to Buy homes (including second-hand buyers further down the line) to register their purchase of such a home – and whether it was to be their main home – with their local authority. This process would additionally need oversight by the local authority in order to be reliable..

44. Likewise, concerning the impact on Housing Benefit costs, the Government does not collect data on whether a private rental property for which Local Housing Allowance (or the Housing element of Universal Credit) is being paid was originally bought under Right to Buy or has always been in the private sector.

45. The Government is committed to supporting local authorities and housing associations in increasing the supply of affordable and social homes. It has increased the size of the Affordable Homes Programme by £9bn, re-introduced social rent, lifted the Housing Revenue Account borrowing cap for local authorities, and set a long-term rent deal for councils and housing associations in England from 2020. It has also recently consulted on potential flexibilities it could offer councils to help use the money they get from Right to Buy sales to build council homes faster. All of these actions are having a positive effect, with the overall stock of social housing increasing by 79,000 since 2010.

I) Homelessness and welfare reform

46. The Committee asked about the work we are undertaking with the Department for Work and Pensions on the links between welfare reform and homelessness and about the costs of homelessness and rough sleeping.

47. We know that we need to be able to better assess any potential impact of future policy changes on homelessness and rough sleeping. In the Rough Sleeping Strategy, published in August 2018, the Government made a number of commitments to improving data and build our evidence base, including piloting new approaches. We were clear in the Strategy of the importance of a strong evidence base and in future iterations of the Strategy we will show how evidence, evaluation and learning has shaped our response to rough sleeping.

48. Welfare and homelessness: To deepen our understanding of the impact of welfare reform on homelessness and specifically rough sleeping, MHCLG and DWP jointly commissioned a feasibility study into researching the wider causes of homelessness, including households' experience of the welfare system as well as other factors such as housing affordability or relationship breakdown.

49. The feasibility study was completed by the independent supplier, Alma, and was comprised of three strands which included:
    - a rapid evidence assessment on the causes of homelessness in the UK;
    - a critique of existing models of homelessness and homelessness projections; and
    - identification of options for developing a predictive, quantitative model or suite of models on homelessness.

50. As set out in Simon Ridley's letter to the Public Accounts Committee on 20 December 2018, Alma recommended developing a flexible suite of models to predict future homelessness trends and appraise policy changes, as well as developing the evidence base in support of this. Officials are now working with the ministerial team across the two departments to decide how best to take the findings of the feasibility study forward and use them to research the wider causes of homelessness. Once Ministers have agreed an approach, we will write back to the Committee setting out our future plans for this work.

51. The long-term ambition for this research is to develop a quantitative, predictive model (or models) of homelessness and rough sleeping, which can be applied to various policy scenarios, to help assess the impacts of government intervention on levels of homelessness.

52. DWP are also supporting the MHCLG "Costs of Rough Sleeping Project", through the provision of administrative data on the benefits received by a sample of rough sleepers.

53. Cost of homelessness: We have already introduced the Homelessness Case Level Information Collection (H-CLIC) data system arrangements through which local authorities will be gathering and reporting on the causes of homelessness, and the accommodation and support needs of people asking for help, including single people threatened with homelessness and those sleeping rough. These measures will help build our understanding of the costs of both homelessness and rough sleeping. The first set of experimental H-CLIC statistics were published in December.

54. The Department's new data collection system has the potential to be linked to other Government databases. This would allow estimates to be made on the wider costs of homelessness to public services.

55. This is a complicated data project which will take time to develop. The current focus of the data project is on the improved collection of case level data and ensuring local areas have the tools needed to successfully deliver this ambitious

new data project and to review its quality. We will consider our approach on data as the project develops and set out more detail in due course.

56. We have also set up a project on rough sleeping that collects public service usage data directly from rough sleepers via an online questionnaire. The research has been developed to better estimate the costs associated with homelessness and rough sleeping in England.

57. It is designed to collect information about housing history, public service use and health and support needs directly from homelessness service users via an online questionnaire, conducted with a sample of clients of homelessness services funded by MHCLG across England.

58. There is a pilot wave of the data collection for the costs research planned for late February, and another two waves planned for later in the year. The data collection process and data quality will be reviewed after the pilot phase, and we expect full analysis of the data will be conducted and finalised in late 2019.

Ministry of Housing, Communities and Local Government

21st February 2019