Ministry of Housing,
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Clive Betts MP
Chair, Housing, Communities and
Local Government Committee
London
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13th April 2018

Dear Clive,

Thank you for your letter of 13th March, which included the Committee's questions about the 2016/17 Supplementary Estimate and the explanatory memorandum that went with it. Attached is a note responding to those questions. I hope this provides the information you need.

Thank you also for making us aware that our memorandum was later than that of other Departments. I am sorry for that, and want to reassure you that we are working to improve processes across the Department to make sure that the Main Estimate 2017/18 explanatory memorandum, and future documents, will be with you on time.

In particular, we have clarified the timetables that we have been working to. We now understand that other Departments were getting memoranda to their Select Committees at the same time as the estimates documents themselves, rather than the technical deadline of the day of publication, which we were working to. We will change our process so that we send the memoranda to you much sooner, in line with others.

I have also asked our new Finance Director, David Thomas, to come and meet your Clerk to discuss these processes, and to make sure we are giving the you and Committee sufficient and timely information on the department's finances.

Yours sincerely,

Melanie Dawes

MELANIE DAWES

Response to the Housing, Communities and Local Government Committee Letter dated 13th March 2018

1. This note provides responses to the queries raised by the Committee in the letter from the Chair to the Permanent Secretary of 13 March 2018, regarding the MHCLG Supplementary Estimate 2017/18, the accompanying Explanatory Memorandum and the information provided to the Committee on housing investment in our letter dated 26 February 2018.

Help to Buy and other Housing Investment

2. *Q1: The Supplementary estimate shows that overall housing investment is expected to be up by £0.4 billion compared to Main Estimate. This is made up of a large increase in Help to Buy investment (up £1.6 billion) and a large fall in other housing investment (down £1.2 billion). Has the increase in budget for Help to Buy meant MHCLG has had to take decisions to scale back or defer spending on other housing investment?*

3. No. The increase in funding for Help to Buy has not directly required changes to other housing programmes. At Autumn Budget 2017 the Government set out additional financial support for housing. Help to Buy was allocated an additional £1.6bn for the financial year 2017/18 as part of an additional package of £10bn over the remainder of the spending review period. This was additional funding allocated to the Department by HM Treasury.

4. The reason why capital spending on other programmes was reduced was largely because it was not possible to spend all of the money allocated in 2017-18. As set out in the Explanatory Memorandum, the reductions in 2017-18 are a combination of transfers to future years for the same programme (budget exchanges) and surrenders. Moreover, as Table 4 of the memorandum shows, the majority of the surrender is supporting the expansion of the Affordable Homes Programme in future years (for more information see the answer to question 2 below).

5. Overall funding for housing has been substantially increased, with an additional £15.3bn of investment in housing over the next 5 years. This includes an extra £2bn for the Affordable Homes Programme, taking the programme to over £9bn.

6. Although the Help to Buy programme is made up of financial transactions rather than capital grant, it scores within the Department's overall Capital DEL control

total. Therefore, the underspend on other housing programmes did reduce the total amount by which the increase in the Help to Buy budget added to the Department's overall control total in 2017-18.

7. *Q2: In the memorandum to the Committee you explain (para 14) that you surrendered £817 million of your 2017-18 budget to HM Treasury. Why have you surrendered such a large sum to the HM Treasury? Could these funds be used to fund local authorities and housing associations who want to build homes or need to make changes to buildings in light of the Grenfell disaster?*

8. As shown in Table 4 of the memorandum, the majority (£495m) of the £817m surrender is from the Accelerated Construction and Starter Homes programmes and will be used to support the expansion of the Affordable Homes Programme in future years. The additional £2bn of funding for the Affordable Homes Programme is expected to deliver at least 25,000 additional affordable homes. This will increase the Government's Affordable Homes Programme to more than £9bn over 2016 - 2022. In addition, £75m of Resource funding was not required as some devolution deals did not proceed; the Build to Rent programme over-achieved on its receipts profile by £52m and £65m of the London Settlement in relation to the London Housing Bank funding was not utilised in 2017/18.

9. The Government has also provided further support for affordable housing by raising the Housing Revenue Account borrowing cap by a total of £1 billion in areas of high affordability pressure, and by providing social rent certainty until 2025 for local authorities and Housing Associations.

10. The changes to the Accelerated Construction and Starter Homes funding reflect the changes to both programmes over the last year. For the Accelerated Construction programme, the development of off-balance models to speed up the build out of public sector land has provided the opportunity for budgetary savings. The Housing White Paper repositioned Starter Homes, freeing up some of the £2.3 billion up to 2020/21 that had been originally allocated for Starter Homes in the 2015 Spending Review.

<u>Affordable Housing</u>

11. *Q3: The budget for affordable housing in 2017-18 after the Supplementary Estimate is £0.8 billion – less than a quarter of spending on affordable housing in 2009-10 (£3.8bn) and lower than affordable housing spending in 2010-11 (£2.9bn) and 2011-12 (£1.6bn). Why is affordable housing investment so low compared to these previous years?*

12. As explained above, the budget for the Affordable Homes Programme (AHP) will be over £9 billion from April 2016 to March 2021, which equates to an average of £1.8 billion per annum. The changes announced in the Budget, alongside those reflected in the Supplementary Estimate, amount to a bigger overall budget for affordable housing, but a later profile of spending.

13. The funding envelope for the AHP is across 3 estimate rows in Annex B of the EM: Affordable Housing NPIF (£455m), HCA – Affordable Homes Programme (£835.4m) and the balance is contained in the GLA settlement line (£114.6m). The total budget surrendered from the AHP at the Supplementary Estimate 2017-18 was £72m which equates to 5% of the year's allocation (£1,406m). This was made up of £48m from the NPIF AHP allocation and £24m from the Homes England AHP. Further reductions in the funding envelope for 2017/18 reflect the later profile of spend on the programme as budgets were switched to future years. £240m was transferred from the HCA AHP line to the GLA Settlement line to reflect the split of the programme funding between Homes England and the GLA during the year.

14. The underspend in the affordable homes programme in 2017-18 was primarily driven by lower than expected bids from housing associations. This was in part due to the sector being uncertain on the Government's policies on social rent, which the Department has now addressed.

15. On the comparison between 2017-18 and previous years, an important factor is the introduction of Affordable Rent in 2011. This reduced the Government subsidy per home by more than two-thirds, from around 60% of build costs to around 17%. As a result, more affordable homes are now built per pound of Government capital grant, enabling the building of over 357,000 new affordable homes since 2010. More affordable homes have been delivered in the last seven years than in the seven years up to 2010.

16. *Q4: You have provided information to the Committee which shows MHCLG plans to increase affordable housing investment to £1.7bn in 2018-19 and £2.6bn in 2019-20. Given the reduction of 35% (£0.5bn) in affordable housing budgets within MHCLG's 2017-18 Supplementary Estimate, what steps will MHCLG take to avoid further significant underspends to, or diversion of funds away from, affordable housing budgets in 2018-19 and 2019-20?*

17. To reduce uncertainty and support Housing Associations and local authorities to invest in new affordable homes, a number of policy changes have been announced. These will all help to ensure that demand and capacity are there in the sector to invest in new affordable homes. These include:

- An additional £2 billion in funding for affordable housing, including for social rent homes which will be in high demand in areas with high affordability pressure.
- Five-year social rent certainty from 2020 so Housing Associations and local authorities can have the confidence they need to invest in new housing. Rent increases will be limited to CPI + 1%.
- Removing the plan to introduce the Local Housing Allowance cap in the social housing sector, providing Housing Associations with further rental certainty to invest in new housing.
- Raising the Housing Revenue Account borrowing cap by up to £1 billion in areas of high affordability pressure to make it easier for local authorities to borrow to build homes on their own balance sheet.

18. In addition, in the Spring Statement the Government announced London's share of the additional Affordable Homes Programme funding we had previously announced at Autumn Statement 2016 and in 2017. At Spring Statement we agreed that London should get a £1.67 billion share to deliver 26,000 more affordable homes. This increased London's total budget for affordable housing to over £4.8 billion to deliver at least 116,000 affordable homes by March 2022.

<u>Flexibility and planning spending</u>

19. *Q5: How is MHCLG able to plan its housing investment if a large part of the spending within Capital DEL is demand led and outside of its control being determined by the popularity of Help to Buy loans in a particular year?*

20. As explained in answer to question 1, the increase in the Help to Buy budget was not at the expense of other housing programmes.

21. More generally, the Department and Homes England have undertaken extensive work to understand the likely demand for the Help to Buy Scheme over the next 3 years. This work informed the decision to allocate £10bn of funding to the scheme, over and above the Department's existing capital budgets.

22. *Q6: Alongside the carry forward under the Budget Exchange scheme of £478 million of MHCLG's housing investment, over £700 million of MHCLG's housing investment has been surrendered to HM Treasury in 2017-18 Supplementary Estimate. What is MHCLG doing to avoid future losses of this scale to its housing investment budget?*

23. As explained in the answer to question 2 above, the majority of the £817m surrender is supporting the expansion of the Affordable Homes Programme in

future years. The answer to question 4 above sets out the policy changes that the Government has announced to maximise take-up of the affordable housing programme.

Other Queries

24. *Q7: £125 million of funding which was earmarked for the Voluntary Right to By Pilot is being carried forward (£80 million of which to fund Right to Buy in future years). What is the maximum (and expected average) discount the Ministry will fund for Right to Buy properties? How have you, as accounting officers, received assurance that funding these Right to Buy discounts provides good value for money for taxpayers?*

25. The maximum discount the Department will fund for the Voluntary Right to Buy pilot in 2018-19 is £80,900, mirroring the statutory Right to Buy scheme. The estimated average discount in 2018-19 is approximately £62,000. This is based on estimated house prices and the statutory Right to Buy discount rate for the Midlands, where the pilots is taking place. Economic analysis and sensitivity tests have been carried out by the Department, all of which show that funding the discounts provides good value for money for the taxpayer. Economic benefits are estimated to be in the region of £440m, and include the distributional impacts from the sale, plus land value uplift, health impacts and further distributional impacts from the replacement units.

26. *Q8: What are the reasons for the £88 million (45%) reduction of spending on devolution 'local and growth fund and cities' in the Supplementary compared with the Main Estimate?*

27. This sum was earmarked to support devolution deals in England through providing investment funding. Six mayoral combined authorities had been fully established and begun receiving investment funding from Government by the end of the financial year 2016/17. The Sheffield City Region is due to hold mayoral elections in May 2018, and a deal was announced on a "minded-to" basis with the North of Tyne area at Autumn Budget 2017.

28. Where local areas had failed to reach a consensus to take forward devolution negotiations (as happened in Greater Lincolnshire, Norfolk & Suffolk and the North East) or had not fully concluded the necessary agreements to transfer powers and budgets (as was the case in Sheffield City Region) some of this funding was no longer able to be used for its original purpose in this financial year, and as such was required to be surrendered. This accounted for £75m of the £88m resource difference. The remainder of the resource difference is due to paying out some of our devolution deal commitments as capital grants from funding provided as revenue. This required us to switch revenue for capital funding and hence there is a corresponding capital increase also shown in the 17/18 supplementary estimates Explanatory Memorandum in the Communities Capital DEL table at Annex A – pg.14.

29. *Q9: £25 million capital investment allocated for Preventing Homelessness was not spent in the 2017-18 year? How had you planned to invest these funds and why was none of the budget spent?*

30. £25m of capital grant was originally intended to be spent in 2017-18 as part of a £100m preventing homelessness fund for move on accommodation aimed at people leaving homelessness hostels and people who have experienced domestic violence and are leaving hostels.

31. The GLA had experienced some difficulties spending their allocation because they needed non-capital funding to provide support for vulnerable people to retain their tenancies.

32. The Department therefore decided to look again at the design of the programme for the rest of England and agreed with the Treasury that we could re-profile £15.6m into 2018-19 (£3.125m of the GLA allocation and £12.5m of the wider funding). The remaining £9.4m was provided to the GLA having agreed changes to their funding package in order to support stronger delivery. The budget was moved to the GLA Settlement line (with £3m of the funding switched to RDEL)

33. *Q10: The Estimates memorandum explains that £65 million of funding allocated for the London Housing bank was unused by the GLA in 2017-18 (Annex C, Note 18). How many successful bids have there been to the Bank in 2017-18 and how much funding from the Bank do you expect to be used during the financial year? Could you provide the GLA with more flexibility over these funds to ensure they are used for housing in future years*

34. The London Housing Bank loan-funding programme was devolved to the GLA. The programme provides £200 million of low-cost loans to registered providers of social housing (RPs), or developers working with RPs for up to 3,000 Rent to Buy homes (affordable homes let at no more than 80% of the market rates for at least 7 years) between 2016-17 and 2017-18. The programme received a low number of bids and has taken longer than anticipated. Five bids were received and only two allocations were made, and so the programme has only spent £52 million for 434 homes by March 2018.

35. We have considered a request from the GLA to repurpose the fund. However, given the acute housing need and affordability pressure in London, we have instead recently allocated an additional £1.67 billion of capital grant funding to London for 26,000 more affordable homes, including for social rent.

10 April 2018