



Ministry of Housing,
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Supplementary Estimates 2019-20: Response to the Committee's Questions

Thank you for your letter dated 16 March 2020 in which you asked for further information in relation to the Ministry of Housing, Communities and Local Government (MHCLG) Supplementary Estimates for 2019-20 and the Annual Report and Accounts for 2018-19.

Please find attached a note from the Department that provides answers to each of your questions. I hope that the committee finds this helpful. The answers have been provided in line with the spirit of the questions but, as you will appreciate, due to the ongoing Covid-19 pandemic MHCLG priorities may change over the coming months; we have not tried to anticipate such changes in this note.

JEREMY POCKLINGTON

Supplementary Estimates 2019-20: Response to the Committee's Questions

Communities Resource Spend

Q1: Is the additional £13.7 million requested for Resilience and Emergencies enough to provide sufficient support following the recent flooding?

The additional requested budget was based on the data available following widespread flooding in November, and we anticipate that the support announced by the Government at the time to be affordable within this budget. Subsequent severe and widespread flooding events as a result of Storms Ciara and Dennis after the Supplementary Estimates process meant that similar support provided was unaffordable within these budgets. As such, the Department has reprioritised existing resources to meet this unexpected demand and ensure that communities were supported.

Q2: Your Ministry is releasing 46% of the money for the Voluntary Right to Buy pilots (£90.1 million) because there has been slower than expected take-up on the scheme. What impact has this slow take-up had on the viability of the scheme? Has your department reprofiled the expenditure for future years based on these results?

There was a high level of demand for the Midlands pilot. The ballot was oversubscribed, with over 9,000 households registering in August 2018. 6,000 tenants were given the opportunity to apply to their housing association to buy their home. The applications and sales progressed more slowly than expected, and the level of dropout was higher than was forecasted, which meant that there was spare budget in-year. Ministers decided to allocate some of this budget to urgent priorities, including the Private Sector ACM Cladding Remediation Fund. Some sales will complete in 2020-21, and HM Treasury has agreed to reprofile £17 million of the budget into 2020-21 to fund these. As of 23 March 2020 there had been 1,562 sales under the pilot, and we expect further sales to take place before the pilot ends.

The pilot will be fully evaluated after it completes, which will provide important evidence to inform the design of future policy. As set out in the 2019 manifesto, the Government is committed to evaluating new pilot areas, and will make an announcement on this in due course.

Communities Capital Spend

Q3. Your Ministry is releasing an “unallocated provision” back to Treasury for £1,067 million in response to “market conditions”. Please provide additional detail on what this £1.1 billion was requested for, what projects this relates to, and where the money may be needed on the future. The Committee also want clarification on whether this capital underspend relates to Ministry sites or whether it affects those used by the public.

The total Capital Financial Transaction budget for 2019-20 was determined through several fiscal events including the Spending Review 2015 and subsequent Autumn Budgets. This budget related to programmes including Help to Buy, Estates Regeneration and the Home Building Fund. At the Main Estimate 2019-20, the budget was allocated to programmes based on our best available forecasts for the financial year however, this left a portion of the budget unallocated. The Committee will be aware that demand for these schemes has been difficult to predict in the past and it seemed prudent to retain an unallocated provision at the start of the year. In the event, this provision was not required and was returned to HM Treasury.

This capital underspend relates to funding allocated to private sector borrowers to deliver new housing, and for the Help to Buy programme, to assist purchases for private new build sales. The

sites are not Ministry sites but some may be local authority owned sites where the local authority has entered into an agreement with a private developer. To the extent that the sites are in private ownership, they are not therefore available for public use.

Q4. Within the Housing and Planning market diversification and guarantees, your Ministry is releasing £40.5 million (33%) of the budget, relating to the Community Housing Fund. The release is attributed to the lead-in times needed to get the house building schemes where they can apply for funding. What is causing this delay? Could it have been foreseen? What impact are these delays having on housebuilding schemes, and how are you ensuring your Ministry will not miss its capital expenditure targets in future years?

The Community Housing Fund provides capital and revenue grants to community-based organisations such as community land trusts and housing co-operatives to build housing to meet local needs. The release of £40.5 million from the Community Housing Fund relates almost entirely to the capital element of the allocation to Homes England (the resource element of the Homes England allocation has been fully allocated).

The revenue funding in the Community Housing Fund has been successful in building up the pipeline of new homes. The delay in the release of capital is the result of the funding period proving too short to enable any new housebuilding schemes to be brought forward and built out from a standing start to completion by March 2020. This risk was considered before the programme was launched in 2018. On balance, whilst the timeframe was challenging, it was considered that that the programme should be implemented given the potential importance of the sector to the diversification of the housebuilding market, housing supply and sustaining local communities and economies.

We will set out funding allocations for 2020-21 at Main Estimates, and will ensure that sufficient funding is made available to Homes England in 2020-21 to meet contractual obligations.

Annual Report and Accounts 2018-19: Response to the Committee's Questions

Q5. Your Ministry reported that it had commenced a review into local authorities' relative needs and resources in advance of the 2020-21 Local Government Finance Settlement. Given that the 2020-21 finance year starts in a couple of weeks, can you provide us with an update on where this consultation has got to, and its key findings so far?

The Government is committed to delivering the Review of Relative Needs and Resources. In December 2018, we consulted on our latest thinking in relation to the relative needs assessment, resources adjustment and transition principles. Building on the consultation, we are developing more detailed proposals to share with the sector.

On 4 September 2019, the Secretary of State wrote to all Local Authority Leaders and Chief Executives to inform them that the Review would be delayed to 2021-22. Plans to implement the Review in 2021-22 may be affected by the ongoing Covid-19 crisis. We are committed to continuing to work with local government as we monitor the impact of Covid-19 on the local government finance system for 2021-22 and beyond.

Q6. How is Northamptonshire County Council progressing on its path to financial sustainability, and when do you expect the intervention to conclude?

MHCLG's Commissioners report that Northamptonshire County Council is making good progress on its path to financial sustainability. On 20 February the authority agreed a balanced budget for the second year running and estimated that reserves would rise to over £40 million. The Commissioners are supporting the Council in implementing the recommendations of the October 2019 independent review of financial services. The intervention itself is due to conclude on 31 March 2021 with functions being transferred to the newly created unitary authorities that will replace Northamptonshire County Council.

Q7. Your Ministry reported that it was refreshing the Northern Powerhouse Strategy in 2019. When is the revised document expected to publish, and are you able to share the key findings/amendments?

A successful Northern Powerhouse Summit was delivered in Rotherham in 2019 where the PM set out his priorities for the north of England. Following the summit, the West Yorkshire devolution deal was announced at Budget this year, which also included the announcement of a further £4.2 billion for intra-city transport settlements - welcoming proposals from Greater Manchester and Liverpool City Region, with invitations for future settlements from West Yorkshire, Sheffield City Region, Tyne and Wear.

Q8. The Governance Statement reports that steps were being taken to improve the membership of the Homes England board, create a new mission, and new objectives. How far along in that process is Homes England, and is your Ministry satisfied with progress so far? When do you expect this work to conclude?

We have taken further steps to strengthen membership of the Homes England Board over the past year. In July 2019 we appointed four new non-executive members, increasing the Board's gender diversity and boosting its resilience, with a total of nine members now in post. This recruitment was carried out to address the Board's own skills analysis exercise with appointments made to address skills and capacity requirements in the areas of organisational transformation; placemaking and regeneration; retail finance; and financial leadership. We have also agreed an increased time commitment of three days per month (previously two) to ensure the necessary sub-Committees of the Board can be properly resourced.

In May 2019 an independent Board Effectiveness Review was conducted with the Board agreeing an action plan to address the Review's recommendations. One of the recommendations was to appoint an existing non-executive as the Senior Independent Director (SID). In addition to their responsibilities as a Board member the role would include providing a sounding board for the Chair, serving as an intermediary for the other directors where necessary, and deputising for the Chair in the case of absence. In June 2019 Simon Dudley was appointed as SID.

Following the departure of Homes England's previous Chair, Sir Edward Lister, Simon Dudley has been acting as interim Chair. The campaign to appoint a new permanent Chair is underway, although the timeline for this appointment has been impacted by the December 2019 General Election and is now likely to be impacted further by Covid-19. This is a key appointment for the Department and we expect to attract a very strong calibre of candidate to the role.

As well as strengthening the Board, the Secretary of State has set out a new mission and objectives for Homes England which is reflected in their five-year Strategic Plan, published in October 2018. This plan sets out a new set of Key Performance Indicators against which their performance is measured. We are working closely with Homes England to deliver their new mission and objectives, including through a transformation programme that will change the

agency's relationship with MHCLG, ensuring that we have an agency that is fit for purpose and aligned to MHCLG's objectives.

Q9. In July 2018, the Government announced it was extending the UK's guarantee of EU funded projects including the Multiannual Financial Framework making payments until 2023, and payment of awards where a UK organisation successfully bid to the European Commission. These were deemed unquantifiable contingent liabilities at the time of reporting. Please provide an update on these liabilities.

Under the terms of the Withdrawal Agreement, the UK continues to participate in the EU Structural Funds financed by the current EU Budget until their closure in 2023 and hence there is no longer a need for the UK Government's Guarantee and no associated liabilities either.

Q10. What was the financial impact of the error in the 2019-20 Non Domestic Business Rates returns, affecting Business Rates Pilot authorities? What changes have been made within your Ministry to ensure all guidance is updated when an error is found in future to avoid a similar issue in future years?

In my predecessor's letters to the NAO following the 2019-20 error in the guidance to the non-domestic business rates returns, she set out that the department had decided exceptionally to make special payments available to authorities that could demonstrate that they had used the incorrect guidance in their financial planning for 2019-20 and could show that the consequences of the error might be difficult to manage. In the event, 21 authorities sought special payments totalling £7.9 million. Of these only 14 could demonstrate that they had relied on the erroneous guidance in setting budgets. Of these, we judged that in only four would the consequence of the error be difficult to manage without additional funding; and, therefore, we made special payments to those authorities totalling £2.26 million.

Following the discovery of this error, MHCLG undertook an internal review to look at processes involved in the delivery of data collection forms and guidance, which resulted in the implementation of more robust quality assurance systems. We have also instituted new error reporting and escalation protocols, to ensure any future issues are actioned promptly. This is consistent with the guidance in Managing Public Money that Departments should "consider routinely whether particular cases reveal concerns about the soundness of the control systems".

April 2020

Ministry of Housing, Communities and Local Government