Ministry of Housing, Communities & Local Government

Jeremy Pocklington CB
Permanent Secretary

Ministry of Housing, Communities and Local Government
2 Marsham Street
London SW1P 4DF

PSPerm.Sec@communities.gov.uk
www.gov.uk/mhclg

Clive Betts MP
Chair, Housing, Communities and Local Government Committee
House of Commons
SW1A 0AA

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Dear Chair,

Main Estimates 2020-21: Response to the Committee's Questions

Thank you for your letter dated 30 June 2020 in which you asked for further information in relation to the spending plans in the Ministry of Housing, Communities and Local Government Main Estimates for 2020-21.

Please find attached a note from the Department that provides answers to each of your questions. I hope that the committee finds this helpful.

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Main Estimates 2020-21: Response to the Committee's Questions

Covid-19

Q1. An additional £10.8 billion has been made available within Local Government's 'Other Grants and Payments' to help compensate local authorities for Business Rate Reliefs, alongside a further £0.96 billion for those forgoing their Revenue Support Grant Allocations. Is all of this extra funding purely to compensate local authorities for funding streams that would otherwise disappear or be severely diminished?

The Department can confirm that the £10.8 billion for Business Rates Reliefs is to compensate local authorities for income that will no longer be received as a result of the specific business rates reliefs introduced by the Government for 2020-21. This reflects existing practice under which local authorities are compensated in full for any loss of business rates income directly resulting from changes to business rates reliefs introduced by the Government.

The £0.96 billion figure is the difference between the value of Revenue Support Grant payments for 2020-21 of £1.613 billion and the 2019-20 figure of £0.653 billion. The increase in 2020-21 reflects fewer business rate pilots overall. Authorities who participate in business rates retention pilots surrender grant payments such as Revenue Support Grant and retain an equivalent amount through the business rates retention scheme.

Q2. If this additional £10.8 billion only provides compensation for lost Business Rates income, please provide details of how Local Authorities are being compensated by Central Government for other lost revenue due to Covid-19, such as Council Tax, Sale Fees and Charges, and Commercial Income?

The Government has been clear in its commitment to ensure councils have the resources they need to continue delivering the vital services required as the country responds to this pandemic. Almost £28 billion has already been committed to local areas and has allowed councils to deliver for their communities: including helping get rough sleepers off the streets, establishing our shielding programme, and providing support for 800,000 small and medium-sized businesses.

On 2 July, the Local Government Secretary announced further measures as part of a comprehensive package of support for local authorities. The package recognises that alongside spending pressures, the national lockdown has had a significant impact on council incomes. As such, measures include:

- A further £500 million of funding to cover local authority spending pressures, taking the total of unringfenced grant funding to £3.7 billion;
- Co-payment mechanism for irrecoverable Sales, Fees and Charges income, with the government covering 75% of losses beyond 5% of planned income;
- Phased repayment of Collection Fund deficits over the next 3 years; and
- Commitment to set out support for local authorities for irrecoverable tax income at the Spending Review

The co-payment scheme will compensate local authorities for relevant, irrecoverable losses in 2020-21. Under this scheme councils bear the first 5% of losses compared to their budgeted income – reflecting the fact these income sources are by their nature volatile from one year to the next – but the Government will support those worst affected by covering 75p in every pound of losses beyond this. Further details of the scope of this scheme, including the principles which the Government intends to cover losses on, will be shared ahead of the first process of collecting, calculating, and compensating for relevant losses.

Regarding tax losses, this latest package announces that collection fund deficits arising this year will be able to be spread over the next three years rather than the usual one which provides considerable additional breathing room in setting budgets for next year. The Government has also committed to an apportionment of irrecoverable Council Tax and Business Rates losses between central and local government to be agreed at the upcoming Spending Review.

The package is designed to help councils through the coming months and it continues to meet the Government's commitment to stand with councils as it delivers vital support for communities during the pandemic.

Q3. It has also been announced that additional funding has also been made available to MHCLG as part of the government's response to Covid-19. This additional funding included £3.2 billion of additional funding, and up-front payment of £3.4 billion of grants. How much of this additional funding has been included within the Main Estimates? How was this level of additional funding arrived at and what is it intended to support?

From the beginning of this crisis, the Department has worked closely with officials in Whitehall, councils across the country and sector representative bodies to anticipate and estimate the financial implications of Covid-19. This work, carried out at pace and kept under constant review, informed the Secretary of State's steers to the sector on which services to prioritise. These services include: adult social care; children's services; public health services; fire and rescue services; waste collection services; shielding the clinically extremely vulnerable people; homelessness and rough sleeping; domestic abuse; supporting the NHS; and managing excess deaths. In recognition of the exceptional nature of this crisis, we have made available £3.2 billion to local authorities.

In terms of the timing of the funding to MHCLG in relation to Main Estimates – the upfront payment of £3.4 billion of grants was provided to local authorities at the end of the 2019-20 financial year so this was not included in the Main Estimates for 2020-21. Because this resulted in the department breaching spending limits set by Parliament, this was the subject of a Ministerial direction in March 2020, and the Committee was informed at the time. £1.6 billion of this £3.4 billion was in respect of the first tranche of the Covid-19 response grant. The other £1.8 billion was in respect of existing Business Rates Relief grants and had been due to be paid in 2020-21. The second tranche of £1.6 billion (bringing the total for the Covid-19 response grant to £3.2 billion) was paid in May 2020 and falls within the 2020-21 financial year. Due to timing considerations, this funding was not included within Main Estimates for this year but we have a commitment from Treasury to address this and the latest funding package at the Supplementary Estimate in February.

On 2 July, as noted above, the Secretary of State announced a further £500 million of unringfenced funding, recognising that councils are continuing to see increased costs across a range of services. The £3.7 billion grant will help councils continue to deliver these vital services in the coming months and provide support for re-opening the economy. Of course, some local authorities may want to go beyond these immediate priorities and support their communities in other ways and it is only right that the cost of doing so is met locally.

Our assessment of these pressures has been informed by the monthly monitoring returns from councils, which form an important part of our evidence base on Covid-19 costs and working with government departments who have offered policy intelligence on emerging costs. The latest monitoring round had a 100% completion rate, and we are very grateful to Local Authorities for all of their efforts on this.

Q4. MHCLG has an unallocated capital provision of £1.76 billion in 2020-21, which is stated as being designed to allow MHCLG to respond flexibly to Covid-19. The associated peak appears to have passed, and lockdown is starting to ease. Is MHCLG now able to provide greater insight into what this money will be used for?

Budgets are set at Spending Reviews and updated at subsequent Fiscal Events. In line with good financial management, the Department allocates budgets based on our best available forecasts for the financial year. That meant £1.76 billion of our capital financial transaction budget was unallocated at the start of the year. This primarily reflects differences between the budgets allocated at Fiscal Events and the forecast requirement, mainly for Help to Buy.

The remaining unallocated amount means the department can adjust budgets in response to market conditions. Although the lockdown is beginning to ease, it is uncertain how market conditions will change across the rest of the financial year due to the economic impacts of the coronavirus pandemic.

The amount of headroom in Departmental budgets is kept under consideration. As part of the Prime Minister’s new deal announced on 30 June, it was announced that £450 million CDEL will be provided to the Home Building Fund Short Term Fund, starting in 2020-21, from the previously unallocated capital provision to be targeted at SME housebuilders. This will support the market and enable Homes England to continue to deliver new homes.

Q5. It has been reported that a number of Local Authorities have had to make use of commercial borrowing facilities as a result of Covid-19. How many local authorities have had to make use of this kind of facility, and are you able to quantify the associated interest costs?

The Department is aware that local authorities may be experiencing cashflow issues and may look to short-term borrowing facilities to meet immediate cash pressures. We have introduced measures worth nearly £5 billion to ease council’s immediate cashflow pressures. Councils have been allowed to defer £2.6 billion in business rates payments, whilst £850 million in social care grants and £1.8 billion of business rates reliefs were paid up-front in a move aimed at helping to ease immediate pressures on local authority cash flows.

Borrowing decisions are made locally, and the Department does not collect data in real time on local authority borrowing or the associated costs. Such information is collected at points in the year on a quarterly and annual basis. However, we continue to work with local government to ensure they are managing as the pandemic progresses, including ongoing communications with authorities to understand cashflow risks as they emerge and how the Department can provide further support to address these.

Q6. For local authorities who have an outstanding loan with the Public Works Loan Board, have they continued to generate sufficient income to repay their respective loans without having to seek additional borrowing or without adversely affecting other services?

Under the Prudential Framework, local authorities make borrowing and investment decisions locally, and must ensure that borrowing is affordable. The Department is aware that some authorities have borrowed from the PWLB to make investments that generate yield, and in some cases affordability of the borrowing is predicated on the investment generating income to cover the debt servicing costs. In these instances, under the Prudential Framework, it is the responsibility of the individual authority to ensure that it can manage risks to income and meet the debt costs. We would expect local authorities to have robust risk management plans in place, including holding appropriate levels of contingency reserves to mitigate the risk of income loss. As part of our continued monitoring of local government finances, we are collecting information on the impact of the current crisis on commercial investment income.

The framework does not allow for additional borrowing to be used to meet revenue costs, which includes debt servicing costs. This is because borrowed funds are capital in nature and, therefore, can only be applied to capital expenditure. So we do not expect authorities to borrow to meet the costs of existing debt.

Q7. In May 2020, cross-party talks were expected to commence in relation to how to fix Adult Social Care, and to avoid the Local Government Association's estimated £6.5 billion funding gap expected by 2025. These talks have been delayed as a result of Covid-19. When will the revised timetable for these talks be made available?

Following the ‘Dear Colleague’ letter from the Secretary of State for Health in March inviting talks to develop consensus on the reform of adult social care, the response to the COVID-19 pandemic has shifted the landscape. Over the past three months, Government has intervened in the care system in ways not possible before.

Whilst the Government intends to build on this, there remain complex questions to address. The Government intends to commence cross-party talks once circumstances permit.

Q8. The timetable for the Fair Funding review has been delayed for the second year running, this time due to the pressures on Local Government caused by Covid-19. When will you be able to share with us the revised timetable?

The decision no longer to implement the Review of Relative Needs and Resources in 2021-22 was taken to allow councils to focus on meeting the immediate public health challenges posed by the pandemic. The government remains committed to the principles of the review, and we have made good progress in building a consensus on the approach to the revised funding methodology. As the local government finance system moves into a more stable position, we will engage with our partners in local government on a suitable timetable for continuing consultation and subsequently implementing the review. We will set out the details of this revised timetable once it is agreed later in the year.

Q9. As part of the Covid-19 measures, councils were given £3.2 million in March to provide emergency shelter for homeless people as part of the ‘Everyone In’ scheme. It is understood that funding for this specific campaign has ended, as the government has given £3.2 billion to deal with the financial pressures being experienced. Can you provide this committee with the analysis of outcome for the estimated 5,400 people who were provided with temporary accommodation since specific funding for the Everyone In scheme has ended.

Funding for ‘Everyone In’ has not ended. The £3.2 million funding awarded to local authorities in March 2020 was an initial payment designed to support local authorities in their efforts to accommodate rough sleepers and people living in shared sleeping sites. As the scale of the pandemic became clearer, Government made available significant new funding to local authorities, now at £3.7 billion, to meet a range of needs including funding for the excellent work Councils have been leading to support vulnerable rough sleepers.

In addition to this funding, the government has announced:

- A further £105 million to support the 15,000 vulnerable people accommodated during the pandemic. This will ensure that local authorities can provide interim accommodation in 2020-21 for those who need it, reconnections to family and friends, and support into employment or training,
- £16 million in 20/21 for substance misuse services, and
- £433 million over the next 4 years to deliver 6,000 units of long-term accommodation for rough sleepers.

The figure of 5,400 rough sleepers you state was based on an initial cohort of people who were accommodated by local authorities at the outset of the pandemic. Local authorities have responded to the challenges posed by this pandemic in admirable fashion, and have so far accommodated almost 15,000 people. This includes people who were rough sleepers, people who were in communal settings such as night shelters, and people who have become vulnerable to rough sleeping during the pandemic.

Dame Louise Casey is leading a Taskforce to spearhead work to support these people, with the overriding objective that as few as possible of the people housed in this accommodation should return to the streets. Armed with the significant funding set out above, and building on the new partnerships that have been formed through 'Everyone In', this work is a vital step towards Government's wider commitment to end rough sleeping.

Q10. Additional funding of £16.6 million is being made available in 2020-21 to keep safe accommodation services open for the victims of domestic abuse and their children in the Main Estimate. A further £76 million was pledged by the government in early May to support vulnerable people during lockdown. How many additional places will this funding provide, and for how long will those places be provided for? Can you provide a breakdown, by local authority, of where these places are being provided?

Of the further £76 million pledged by the Government in early May, £28 million was provided for domestic abuse charities split between Ministry of Justice, Home Office and the Ministry of Housing, Communities, and Local Government. Of this, MHCLG is allocating £10 million as an Emergency Support Fund for charitable domestic abuse safe accommodation service providers.

To date, MHCLG has allocated £8.5 million to 162 service providers. Successful service providers will reopen over 290 bed spaces as well as providing over 1270 extra bed spaces up to 31 October to meet additional Covid-19 related demand. For the safety and security of service users and staff, the location of domestic abuse safe accommodation services are secret. As such we are unable to break down, by local authority, where the bed spaces are provided.

Other

Q11. MHCLG has requested £929.9 million for 2020-21 to progress remediation works to remove and replace unsafe non-Aluminium Composite Material cladding systems. Based on current progress, how long will it take for all of the affected buildings to be made safe?

The Department will publish further information on the Building Safety Fund in July. For buildings receiving funding we will expect that work can begin on site by March 31st 2021. The length of time it will take to complete remediation will depend on each individual project and its requirements.

Q12. MHCLG is aiming to have supported the building of 500,000 homes by the end of 2020, with a target of building a further additional 300,000 by the mid-2020s. Are these targets

still on track following the closure of building sites during lockdown? How many homes do you now anticipate will be built in 2020? What impact is this likely to have on the overall plan and timetable?

The Government's ambition is to increase the net supply of homes to 300,000 per annum from the mid-2020s. This will include conversions as well as new built properties and be net of any demolitions of existing homes. The pandemic resulted in both a shock to supply of homes due sites shutting down, and also a shock to demand with people unable to visit or progress purchases and lets. While we are not certain how long or deep the recession will prove to be, we recognise that this presents a real challenge. It is however too early to provide clarity around the potential impact on supplying an additional 300,000 homes per annum by the mid-2020s. The packages put in place by the Treasury to support workers and businesses are providing much needed stability to the workforce and developers, and we are also working to provide additional support to enable future supply to pick up quickly such as the Brownfield Fund, support for small and medium sized builders and the Affordable Homes Programme announced recently by the Prime Minister.

Q13. As part of the EU, the UK received structural funding of about £2.1 billion per year. The government has pledged to set-up a Shared Prosperity Fund to 'reduce inequalities between communities'. Is MHCLG the lead department in setting up this fund? When are payments from this fund expected to start being made?

The Government recognises the importance of reassuring local areas on the future of local growth funding and of providing clarity on the UK Shared Prosperity Fund. Now we have left the European Union, we will create a UK Shared Prosperity Fund which binds together the whole of the United Kingdom, tackling inequality and deprivation in each of our four nations. MHCLG is leading on the development of the fund.

Final decisions on UKSPF will need to be made through a cross-Government Spending Review, and we will set out further plans for the fund in due course. It is important to note that under the terms of the European Union (Withdrawal Agreement) Act 2020, the UK continues to participate in EU annual budgets under the current Multiannual Financial Framework (2014-2020 MFF). As a result, England and the devolved administrations continue to have access to EU Structural and Investment Funds and spending through these programmes will continue throughout 2021.

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Ministry of Housing, Communities and Local Government