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18 January 2021

Dear Meg,

Thank you for your letter of 18 December 2020 following my PAC appearance on Monday 7 December.

Remediation of dangerous cladding

In our response to the Public Accounts Committee's 16th Report of Session 2019-2021, 'Progress in remediating dangerous Cladding', MHCLG undertook to write to the Committee in December in relation to a number of recommendations including 2 and 5, which relate to the issues raised by your Committee on the Building Safety Fund and the EWS1 process. I responded to these requests in my letter to the Committee dated 22 December 2020 and have reiterated these points below.

EWS1 process

The Department remains firm in its view that the inability of some leaseholders to sell their homes is unacceptable and cannot be allowed to continue. The Department continues to work at pace with key external stakeholders to support and implement measures to rectify the root causes behind this issue.

On 21 November the Government announced a number of steps to help homeowners caught up in the EWS1 process. The Government has had confirmation from industry that buildings without cladding will no longer be subject to the EWS1 process. We estimate that this could help nearly 450,000 flat owners who will be able to now sell their property. Additionally, we published a supplementary note to the Department's consolidated advice note for building owners, outlining when remediation work should be considered.

The Royal Institution of Chartered Surveyors (RICS) has recently published draft guidance on the valuation of multi-storey, multi-occupancy buildings with cladding – and the use of the EWS1 process – as a public consultation. The aim is to enable surveyors to take a more proportionate approach in assessing when an EWS1 assessment is required, further reducing the number of buildings which will need to undertake this process.

To reduce the pressure on the EWS1 process even more, we continue to encourage lenders to recognise alternative forms of assurance of building safety such as a comprehensive Fire Risk Assessment. MHCLG and the Home Office have commissioned a new standard (a Publicly Available Specification) for the assessment of external wall systems which will be available later this year and will enhance the consistency of cladding fire safety information available to residents, surveyors and lenders for purpose built blocks of flats.

From January we are also providing nearly £700,000 of funding to RICS to train more fire assessors. Within six months we anticipate that this will result in an additional 2,000 assessors who will be qualified to undertake EWS1 assessment. Where such an assessment is required this training will speed up the valuation process for homeowners enabling them to re-mortgage or sell their properties.

The Department continues to work with the insurance sector to improve professionals' access to Professional Indemnity Insurance products, thus ensuring that they can help make buildings safe. This includes the Minister for Fire and Building Safety holding a number of roundtables with key representatives from the insurance industry.

Building Safety Fund

Regarding the assessment of the impact of the Building Safety Fund, you will be aware that responsibility for ensuring that buildings are safe for residents rests with building owners. While Government is providing public subsidy to ensure remediation happens so that residents and their homes are made safe, this government funding does not absolve building owners of this responsibility. Building owners should consider all routes to meet costs, protecting leaseholders where they can, through their own resources or by recovering costs from applicable warranty schemes or from the developers or contractors who were responsible for the installation of installed unsafe cladding, as has happened with more than half of the private sector buildings with ACM cladding. A formal impact assessment was not required to be carried out for the Building Safety Fund because it is not a regulatory provision. However, we took account of these alternative funding routes when establishing the Fund and setting its budget.

We fully understand the concerns of many leaseholders and building owners over the cost of remediation of cladding. In setting up the Fund, Ministers recognised the impact that unaffordable remediation costs have on individuals in the context of the wider risks and costs associated with the presence of unsafe cladding on buildings over 18m. That is why, in addition to the funding being provided, Government asked Michael Wade to accelerate work with leaseholders and the financial sector to develop proposals to protect leaseholders from unaffordable costs of remediating historical fire safety defects. We have also made available additional funding of £30 million to support the installation of common alarm systems to help reduce the current impact of Waking Watch costs on leaseholders. I expect this fund to open to applications later this month.

We have also announced a six-month extension to the Building Safety Fund deadlines to ensure that applications can proceed and allow the full £1 billion budget to be fully allocated.

We published updated data on the Building Safety Fund on 17 December 2020 and will provide further updates at regular intervals.

Local government finance and the Spending Review

COVID-19 Leisure Funding

We recognise gyms and leisure centres play a vital role in helping people to be active and they will be crucial in our nation's recovery from COVID-19 as well as wider health, wellbeing and community benefits. The funding available to support local authorities with leisure provision depends on whether they receive revenue or subsidise their provision and whether they provide it in-house or externally. Leisure facilities may also be eligible for wider government support for business.

If an authority that receives income from its leisure centres has irrecoverable transactional income losses which were budgeted for in 2020-21, they may claim support for these losses through the Sales, Fees and Charges Income Compensation Scheme (which refunds 75% of eligible income loss beyond a 5% threshold). The scheme was recently extended into the first three months of 2021-22.

If an authority subsidises its leisure provision, they may wish to use part of their allocation of the £4.6 billion of unringfenced funding MHCLG has provided to support councils to meet additional costs as a result of the pandemic to offset these costs. Recognising the impacts of COVID-19 on local authorities will continue beyond this financial year, the Department announced £1.55 billion of support for additional costs in 2021-22 at the 2020 Spending Review.

If an external provider delivers leisure services, they may be eligible for Sport England's National Leisure Recovery Fund (NLRF) to support the reopening and recovery of the public leisure sector and prevent further closures of outsourced leisure trusts and operators. Given the changing circumstances arising from the latest national restrictions, DCMS have agreed to extend the criteria for how the award money can be spent. The funding can be used to cover certain types of costs incurred by outsourced operators during the current national restrictions and any remaining funding for reopening can be used beyond 31 March 2021. More information on the scheme and the costs covered can be found on the Sport England website: https://www.sportengland.org/how-we-can-help/facilities-and-planning/national-leisure-recovery-fund.

Leisure facilities may be eligible for business support provided by government including the Coronavirus Job Retention Scheme (which has been extended until 30 April 2021) which allows councils or providers to claim 80% of an employee's usual salary for hours not worked, up to a maximum of £2,500 per month. Support is also available through a range of business grants, loans and business rate reliefs, with the exact support available depending on the size of the organisation.

The amount any council receives will depend on their individual circumstances.

COVID-19 Lockdown Funding

Contain Outbreak Management Fund

The Contain Outbreak Management Fund provides funding for English Upper Tier Local Authorities (UTLAs) in order to support the ongoing public health and outbreak management costs of tackling coronavirus. This funding recognises the differential impact of the pandemic on local areas, including during those periods where restrictions are local rather than national.

The highest level of restrictions (Tier 3, Tier 4 or National Lockdown) qualifies UTLAs for funding at £4 per population head, per 28 days. The amount that the UTLA will receive will be calculated on a pro-rata basis, reflecting any time during a 28-day period that they were subject to Tier 3, Tier 4 or National Lockdown measures. Any time during that period that a UTLA was subject to Tier 2 restrictions will be funded at £2 per population head per 28 days.

This funding, worth over £200 million per month during the National Lockdown, can be used to fund local coronavirus response public health activities, such as additional contact tracing, testing for hard-to-reach groups, and public health communications. It will be in addition to the more than £975 million that has been committed from the Contain Outbreak Management Fund to local authorities to date.

Generalised Support

In addition, MHCLG has provided £4.6 billion of unringfenced support to the sector since the start of the pandemic. This is distributed based on a bespoke COVID-19 relative needs formula. This formula was developed through an analysis of the financial monitoring data that councils provided to us through their monthly returns. This identifies population and deprivation as key drivers of costs. It also takes account of how costs vary across the country, through an area cost adjustment thereby ensuring we reflect the differential impacts of the pandemic on different parts of the country.

The resulting allocations are not only fair but meet our duty to spend public money wisely by targeting funding at areas with greatest needs.

Through their regular financial monitoring returns local authorities have reported spending an extra £4 billion as a result of the pandemic between March and the end of October. Over the same period, the Government has provided £7 billion in expenditure support. We continue to engage with local authorities on further support required in response to the pandemic and will continue to keep this support under review.

BEIS Business Support

Where businesses are required by law to close in order to protect the NHS and save lives they are eligible for grants of up to £1,500 per 14-day period of closure. This was applicable prior to the latest restrictions in tiered areas where business closures were required by law.

The Chancellor announced on 5 January that closed businesses would be eligible for a further one-off payment of up to £9,000.

Furthermore, an additional £500 million in discretionary funding for local authorities is also being made available. This is in addition to £1.1 billion in discretionary funding that has also been allocated to local authorities to support businesses.

Spending Review Assumptions

Alex Skinner, the Director of Local Government Finance, wrote to you on 17 December to share publicly available assumptions which were used as part of the 2020 Spending Review for local government, including in relation to local government pay costs.

You may be particularly interested to note that to account for real wage pressures the Government used the labour market projections published by the OBR. In practice, local government has the flexibility to negotiate its own wages for staff.

I have not gone into further detail about the assumptions that were made, as this would be unhelpful to all parties during these negotiations.

Please find Alex Skinner's letter enclosed.

PWLB

The Government has changed the PWLB lending terms such that local authorities can only borrow from the PWLB if they do not plan on making any investment primarily for yield over the next three years. We will require authorities to submit their capital plans as a condition of accessing PWLB resources, and the authority's section 151 officer will have to give written confirmation that the authority does not plan to make any investment primarily for yield over the next three years.

As set out in the new PWLB lending terms: https://www.dmo.gov.uk/media/17135/circular-162.pdf, if the Government has concerns regarding the appropriateness of a PWLB loan it will contact the local authority in question to discuss its application. If the loan has already been made, the Government may then, at its discretion, make future access to the PWLB conditional on a borrower acting in accordance with reasonable instructions and we retain the right to compel the borrower to repay the PWLB loan in full including exit fees. We also intend to check capital plans against the capital spending outturn authorities submit to MHCLG.

The reforms to the PWLB sit alongside Government's wider strategy to review the Capital Framework to ensure that it drives the right behaviours in local government. To do this, the Department is currently taking forward its programme of work, as set out in its response to the September 2020 Treasury Minute. This includes developing options for more timely and effective intervention to address problematic local authority investment behaviours; working with stakeholders to support improvements in authority governance and capability with respect to investment decisions; and measures to secure compliance with the Framework.

The Department is also conducting a review of the data it collects on local authority investments. The outcome of the review will be used to improve our monitoring and oversight of the system, including understanding of the stock of existing assets and the ongoing risks from local authority commercial activity. In addition, Government is carefully monitoring the impact of COVID-19 on local authority commercial income, both through the sector returns and as authorities come forward for support, as this exposes the risks in the current system and furthers our understanding of where the Framework needs reform. The Department will write to the Committee on its review of the Capital Framework by July 2021.

Alongside this, the Department's response to the Redmond Review will strengthen the role of audit in driving compliance and improve transparency of authority performance.

In his speech to the LGA on 7 January, the Secretary of State set out the Department's stance on local authority commercial investment. Councils should look to reduce their dependence on commercial income and focus on delivering services for the residents they serve rather than compete with the private sector and distort local markets. Councils should not take on novel or complex investments for which they are not well equipped with the right expertise. If councils are unwilling to contain the risk from commercial strategies, Government will take a more active role.

Exceptional Support

In order to ensure it has a good understanding of developments in the sector during the pandemic, the Department has undertaken an extensive programme of proactive engagement with local government to discuss matters related to local government finance. We have now spoken to 120 councils, over a third of the sector. This reflects the intensity of our engagement with the sector rather than a reflection of the number of councils that need financial support. These conversations have helped to build our understanding of how the pandemic is impacting the finances of councils and how they are managing the situation on the ground.

The Department has been clear since the start of the pandemic that any local authority faced with an unmanageable pressure or concerned about their future financial position should approach MHCLG for discussion. As we said at the hearing, only a small number of authorities are actively seeking such support. It would not be appropriate to comment on the details of these confidential discussions, but I can reassure the committee that it is not the case that a third of the sector are close to applying for exceptional support. Ministers have not yet made decisions on any application for exceptional support, but expect to do so shortly. The Government will publish any decisions to provide such support.

Croydon Council

You asked about our contact with Croydon Council. Between August 2018 and March 2020, the Department met twice with senior officials at Croydon Council, including the Chief Executive and Chief Financial Officer, to discuss the council's finances. Since the start of the pandemic in March 2020, we have maintained an ongoing dialogue with the council and we will continue to work with the council to understand their financial position and respond to their request for financial support.

Towns Fund

The £3.6 billion Towns Fund was announced by the Prime Minister in July 2019 to support places build prosperous futures, as part of the Government's levelling up agenda. This fund will support ambitious town deals (£2.5 billion which included £300 million for a Towns Competition), and the Future High Streets Fund (£1 billion), which have a shared objective of driving long term economic regeneration of towns and high streets to deliver long term growth. It also includes a further £100 million to support Freeports in England. The Towns Fund runs from 2019/2020 – 2025/26, sits on MHCLG's DEL, and is therefore accounted for by the Department.

We have received Town Investment Plans from over half of the 101 towns selected to develop proposals for Town Deals. We expect the remaining 45 towns to submit plans at the end of this month or shortly afterwards. In October, we offered Town Deals to the first seven towns. We expect to make more offers shortly, with the intention of all towns being offered a deal by Spring 2021.

On 26 December 2020, we announced the 72 places that were successful in the Future High Streets Fund. Of these, the 15 strongest places received the full amount requested; a further 57 places received an in principle offer of 69% of the original amount requested, and have until the end of March to revise their plans and update aspects of their business cases.

The Spending Review in November 2020 confirmed a £4 billion levelling up fund for England, that will attract up to £800 million for Scotland, Wales and Northern Ireland in the usual way. It will invest in local infrastructure that has a visible impact on people and their communities and will support economic recovery. This £4 billion fund will include the £300 million that had been earmarked for a further towns competition which will now be run as part of this consolidated fund. The Fund will be open to all local areas and allocated competitively and a prospectus is being developed which will set out more detail, including on the application process. We expect to launch that prospectus early this year.

Stronger Towns Fund

After the hearing, you asked me to clarify whether we had received any proposals from towns wishing to secure funding from the Stronger Towns Fund, the approach of the previous government that was superseded by the Towns Fund.

The Department did not publish a prospectus or invite proposals for the Stronger Towns Fund. Having reviewed our files, we cannot find any record of proposals – formal or informal – having been received. I would of course be happy to undertake further checks if you could provide more details.

Yours sincerely,

JEREMY POCKLINGTON