

# Briefing

## Spending Review 2013

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## Introduction

The Chancellor presented the 2013 Spending Review to the House of Commons on 26 June. He set out how Government will spend £740 billion in 2015/16 and how they will make £11.5 billion of savings from current spending. He also outlined how a proportion of these savings will be used to invest a further £3 billion of capital per year from 2015/16, boosting infrastructure and supporting economic growth.

The Spending Review was followed by an announcement by Danny Alexander on 27 June with further details on a long-term plan for capital investment to 2020 and beyond and capital spending allocations for all departments for 2015/16. [Investing in Britain's Future](#) (published on 27 June) set out the detail of how over £100 billion of infrastructure investment will be allocated over the next Parliament.

The main measures in the Spending Review, and subsequent announcements, for housing were:

- £3.3 billion capital investment in affordable housing over three years.
- A further investment in existing programmes for supported and specialist housing in 2015/16: £115 million from the Department of Health (DoH) for the care and support specialist housing fund, £40 million invested in homeless hostels.
- A rent settlement for social housing of CPI +1% for 10 years from 2015.
- A cap on Annual Managed Expenditure (AME), including housing benefit, to come into effect from April 2015.
- An overhaul in the way public land is sold by centralising disposals through the Homes and Communities Agency (HCA).
- £3.8 billion into a pooled budget for health and social care services to work more closely together in local areas, in order to deliver better services to older and disabled people.
- A Single Local Growth Fund (SLGF) of £2 billion per year for Local Enterprise Partnerships (LEPs), including a proportion of the new homes bonus fund.

Responding to the Spending Review, National Housing Federation chief executive David Orr says:

“The Government has recognised that public investment is required if we are to build more of the affordable homes which are so desperately needed by the millions of people struggling to afford a home of their own.

“But the £3 billion over three years announced today is in reality a further disappointing cut in subsidy and won’t deliver the ambitious house building programme we need. The lack of investment in housing is now acting as a brake to growth in other parts of the economy.

“We welcome the plans to sell-off £5 billion worth of publicly owned land which could be used potentially for housing and look forward to hearing more as to how this will be distributed.

“The Government’s confirmation that rents will rise by CPI +1% for 10 years is welcome, but we need to discuss the fine detail of how this will operate in practice if it is to enable housing associations to plan with confidence.

“It is understandable that the Government wants to cut the amount spent on benefits. But capping housing benefit within an overall cap is the wrong solution.

“The shortage of affordable housing must be addressed first. Without tackling the root of the problem, households will only be squeezed further.”

## 1.0 Background

In 2012/13, total government debt stood at £1.2 trillion (75.2% of GDP) and the budget deficit was £120 billion (7.7% of GDP). Government debt, as a proportion of GDP, is predicted to continue to rise up until 2017/18, when it will fall slightly to 84.8%. The Government's plan to reduce the deficit, and ultimately debt, focuses on spending reductions rather than tax rises.

The 2013 Budget (published in March) set out the total government spending for the period covered by the Spending Review, ie 2015/16. The Total Managed Expenditure (TME) for 2015/16 will be £744.7 billion. While the Spending Review determines the departmental budgets for a single financial year, it was recognised in the Budget that a longer-term commitment to capital investment in areas regarded as economically significant would be necessary to drive the growth this country needs.

In May we sent the Chancellor our Spending Review submission, outlining the case for investing in affordable homes to help tackle the housing crisis and as an economically valuable industry. We made the case for investing in affordable homes and recommend that Government should invest £2 billion a year to deliver 55,000 to 65,000 new affordable homes and that investment should be available for as long term as possible.

We made a series of specific proposals to increase housing supply and get the economy moving, including:

- Give housing associations and lenders certainty over long-term income streams by confirming that social rents will continue to be set by the existing rent formula, increasing by RPI + 0.5% (+/- £2) for the next 10 years.
- Understand the impact of current welfare reforms before considering further spending proposals and exclude social security spending from the cap on Annually Managed Expenditure as an unacceptable risk to the economic and social stabilisation it offers.
- Reforming health investment, including a £300 million capital investment for new and remodelled supported and specialist homes for older and vulnerable people
- Government capital investment in social and affordable housing development should continue to be administered at a national and London level, through the HCA and the Greater London Authority (GLA) respectively, rather than being devolved to the SLGF.

We also recommended a number of ways Government could make public investment in affordable housing go further, including:

- Fast-track the release of small parcels of public land, encourage the release of surplus NHS land and give the HCA more powers to take a proactive role in land disposal

- Extend the Affordable Homes Guarantee programme beyond 2017 and allow it to be used for refinancing
- Make better use of Recycled Capital Grant Fund (RCGF) for estate regeneration and refurbishment
- Reduce the VAT rate from 20% to 5% for the repair, refurbishment and renovation of affordable housing
- Housing associations should retain the right to manage their assets

[The Spending Round 2013](#) set out ‘a series of investment decisions and reforms that demonstrate how the Government is prioritising growth, transforming public service delivery, controlling welfare spending, driving out efficiency savings and ensuring fairness in its plans for spending in 2015/16.’

The 2015/16 Departmental Expenditure Limit (DEL) for all departments has reduced by 2.6% in real terms compared with 2014/15. Spending on health, schools and overseas development are protected. Changes in the departmental programme and administration budgets (current) and department capital budgets (capital) in real terms for individual departments between 2014/15 and 2015/16 include:

- 10% reduction in current spending for Department Communities and Local Government (DCLG) - Local Government<sup>1</sup>
- 10% reduction in current spending and 35.6% reduction in capital spending for DCLG - Communities
- 9.3% reduction in current spending and 5.5% increase in capital spending for Transport
- 9.6% reduction in current spending and 7.7% reduction in capital spending for Environment, Food and Rural Affairs
- 8.0% reduction in current spending and 3.1% increasing in capital spending for Energy and Climate Change.

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## 2.0 Spending Review announcements and Federation response

### 2.1 Capital investment in affordable housing

#### *Government announcement*

Government will invest £3.3 billion over three years from 2015/16 to support the delivery of 165,000 new affordable homes. Ministers expect these homes to come not only from a grant funded programme, but also non-grant funded sources, most notably Right to Buy replacement homes.

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<sup>1</sup> No figures available for the change in capital budget for Local Government

The £3.3 billion funding includes £957 million of grant each year from 2015/16 to 2017/18, to deliver homes for affordable rent and shared ownership, in an extension of the Affordable Homes Programme (AHP). It also includes £400 million of equity loan funding for a new Affordable Rent to Buy product, of which £250 million will be available in 2015/16 and £150 million in 2016/17. This will support new affordable homes for rent and eventual sale. Government will work with housing associations to design the scheme.

For 2015/16, Government will further invest through its existing programmes for supported and specialist housing: £115 million from DoH for the care and support specialist housing fund, and £40 million invested in homeless hostels. In addition to this, we understand the Disabled Facilities Grant will be maintained for 2015/16 at £220 million.

*Federation response*

The investment of £3.3 billion is welcome recognition of how public investment is required if we are to build more affordable homes. The provision of a three-year programme should also be viewed positively, as only those regarded as significant for the UK's infrastructure plan were allocated funding beyond 2015/16.

However, a £3.3 billion investment is clearly small-scale in the context of a £100 billion investment in infrastructure in total, fails to address the 63% real terms cut delivered under the 2010 CSR or the gearing and capacity constraints of the current AHP. Unfortunately, it falls short of the investment required to deliver the ambitious house building programme we need and risks acting as brake on recovery in the wider economy.

Government has yet to identify exactly how the delivery of 165,000 homes will be apportioned, so it is impossible to speculate on expected grant rates. We do however understand that shared ownership will continue to play a significant role in the programme. Government will need to closely monitor the success of non-grant funded sources of delivery, especially the Right to Buy replacement homes, in adding to affordable housing supply. For example, latest figures show that whilst local authorities sold 5,942 homes under the Right to Buy in 2012/13, only 844 new affordable homes were started.

It is also clear there will be a greater emphasis on efficiency, asset management and conversions. In submitting bids, housing associations will have to demonstrate ambitious plans to drive efficiencies, to make investment go further, and on managing existing assets, to provide cross subsidy. We also believe Government wants to see a step change in the approach to the conversion of re-lets to affordable rent or sale. It is conceivable that all re-lets will be expected to be converted or sold unless housing associations can demonstrate sufficient value for money and financial contribution elsewhere, or there is good reason not to convert.

Clearly, housing associations will need to take a view on the attractiveness of the funding, risk and terms offered under the AHP before submitting bids and the level of grant it is viable to bid for. We remain convinced that housing associations are best placed to take an economic view of their stock and are already managing their existing assets to boost financial capacity. We do not believe it is for Government to direct asset management and it should not be predicated on or used to drive their development programme. We are also unconvinced by the potential of greater conversions, in particular to affordable rent, as under the current AHP many housing associations report conversions coming forward more slowly than expected or generating less uplift than anticipated.

We welcome the opportunity to work alongside Government in the design of the new Affordable Rent to Buy scheme. Our current understanding is that this funding will support the development of new build homes to be let at affordable rents for a limited period, before being sold. The tenant would get first refusal to buy and the loan be repaid on sale. We will work with the sector to help ensure it is deliverable for housing associations and effectively targeted at customers.

## 2.2 Social housing rent settlement

### *Government announcement*

Further to the announcement in the Budget 2013, Government announced that for the 10-year period between 2015/16 to 2024/25, social rents will rise annually by the consumer price index (CPI) plus 1%. The detail that has been published to date on the new rental formula does not include the previous provision of +/- £2 per week to allow convergence towards target rents.

### *Federation response*

We welcome confirmation of the 10-year rental certainty, with annual rises above inflation, as an important part in giving housing associations the confidence and resources to plan for future development. It should offer the stability needed to secure long-term private finance, develop much-needed affordable housing and deliver high quality services to tenants. It is also helpful in offering lenders and investors the certainty they need too.

The move to CPI plus 1% will naturally lead to questions as to how this new level compares with the retail price index (RPI) plus 0.5%. This will of course depend on future inflation, but over the last 12 months RPI has, on average, been around 0.5% higher than CPI, suggesting the new formula should give a broadly comparable rent increase in the short-term. In the long-term, the difference between RPI and CPI is more uncertain and will vary year-on-year, though current forecasts suggest the gap may grow. Housing associations will need to be mindful of any potential fall in rental income over the long-term and factor this in to their business planning process accordingly.

We understand the absence of the +/- £2 per week will raise questions and concerns for a small number of housing associations. But it is important to note that the responsibility of boards is to protect the solvency and viability of their association and this is reflected in the HCA's Governance and Financial Viability Standard. In addition, paragraph 1.5 of the Rent Standard specifically refers to cases where the application of the standard might put a provider at risk of failing to meet existing commitments such as banking or lending covenants, and states that the regulator may allow time for the provider to bring itself into compliance. We have raised this issue with Government and will be taking this forward with them, and the Regulator, and are hopeful of a solution for the small number of associations in this position. If your organisation is in this position then please contact the Federation so we can take your views into account when liaising with Government and the HCA on this issue. Please contact [catherine.ryder@housing.org.uk](mailto:catherine.ryder@housing.org.uk).

In other instances, housing associations will need to be mindful of how the new social rent formula is impacted by the cap on welfare spending, in particular housing benefit. This cap is likely to squeeze tenants' incomes further and affect their ability to pay rent. The potential of continuing an above inflation annual rent rise, especially in terms of aiding new development, is therefore likely to be dictated by housing associations ability to collect rent.

We understand CLG will be consulting on the operation of this new social rent formula in the near future.

## 2.3 New limit on welfare spending

### *Government announcement*

As expected the Government has introduced an overall cap on elements of welfare spending including housing benefit, child credits and disability benefits. These parts of the welfare budget will come under AME. The cap will exclude Job Seekers Allowance and the basic state pension and Government will consult further on the exact list of benefits included in the cap. The amount at which AME is capped will be announced in Budget 2014, covering the four years from April 2015. This potentially means further reductions in individual entitlements to benefit.

A number of specific measures were announced to strengthen the conditionality regime for claiming benefits and reduce spending:

- A requirement for all unemployed claimants, and those earning less than the Government expects them to, to wait seven days before becoming eligible for financial support. This extends the current three-day waiting period for Job Seekers Allowance claimants. It is not clear if it is intended to apply this to all elements of Universal Credit (ie housing and child elements as well as the standard allowance). This measure is calculated to save £245 million in 2015/16
- Introducing upfront work search so claimants have to demonstrate that they have started looking for work before claiming

- Requirement to sign on weekly for half of all job seekers
- Some claimants will have to attend an English language course
- Requirement for lone parents who are not working to prepare for work once their youngest child turns three.

*Federation response*

The overall cap on welfare spending raises the prospect of further cuts to the support for poor and vulnerable people once spending on social security has reached an unspecified limit. There is a reason such spending has been protected from limits in the past as it is designed to be available when people need help.

The requirement to wait seven days before claiming financial support is particularly concerning if it is to apply to the entirety of a Universal Credit claim, including the housing and child elements. Universal Credit claimants will already have to wait over a month between making a claim and receiving their first payment and we are concerned that this added delay will increase the likelihood of households facing financial hardship.

## 2.4 Public land

*Government announcement*

The Government will sell £15 billion worth of assets between 2015 and 2020. This will include £5 billion from sales of land and property. This will be supported through centralising disposals via the HCA.

Alongside this, the Government will introduce a range of measures aimed at speeding up public land release:

- A right to contest: communities and business will have the right to challenge Government to release land where it is potentially surplus or redundant.
- A strategic land review: the review will work with industry and local authorities to help identify where further public sector land can be made surplus and sold to support construction and growth.
- Stronger governance: a new centralised role and stronger levers for the Shareholder Executive and the Government Property Unit to account on asset and property disposals and rationalisation.

*Federation response*

We welcome the Government's plan to centralise £5 billion worth of land disposals through the HCA. We have continuously called for the HCA to take the central role in disposals. In the run up to the 2013 Autumn Statement, we will work with the HCA and the Government Property Unit to ensure housing associations can fully benefit from this increase in land disposals. It is important to ensure opportunities are not missed for creative use of assets which delivers homes and stimulates economic development in the short term, but also delivers long term benefit to the local area. This should include, for example, creative use of NHS estate to unlock general and specialist developments.

We also welcome the 'Right to Contest' and the Strategic Land Review. This will enable housing associations to pursue development ambitions for sensible sites, which may not be forthcoming. However, we would want to see that this new right is used appropriately and does not lead to a 'fire sale' of public land for short-term gain, rather than long-term investment.

## 2.5 Local growth fund

*Government announcement*

The Government will create a Single Local Growth Fund (SLGF). This will bring together Central Government's growth related budgets and gives LEPs responsibility for spending it on the basis of their strategic growth plans. During 2015/16, it will be worth over £2 billion. Approximately, £1.1 billion will be from transport budgets, £500 million from skills and £400 million pooled from the New Homes Bonus (NHB). Inclusion of NHB is intended to promote strategic working between LEPs and their partner local authorities.

In the next six years, the Government is committed to making SLGF at least £2 billion per year. SLGF will total £10 billion over the life of the next Parliament. While the Government has not yet decided precisely how the majority SLGF will be funded after 2015/16, £5 billion will come from the transport budget from 2016/17 to 2020/21. The Government has also committed to expanding the SLGF, if LEPs can demonstrate the impact they achieve with greater funding and flexibility.

*Federation response*

We welcome the creation of the SLGF. Giving LEPs control over more growth-related funding streams may present them with more opportunities to boost local growth. As significant local businesses housing associations will be keen to work with LEPs to explore how they can use the pot to maximum effect to meet their objectives for growth, jobs, skills and energy efficiency.

While we still await the precise details on how the single pot will be funded from 2016/17 onwards, we welcome the fact that the vast majority of housing funding will be administered by national agencies. In particular, a national and London based affordable housing programme offers significant economies of scale that outweigh any efficiency gain from devolution.

## 2.6 Pooled budget for health and social care services

### *Government announcement*

The Government will put £3.8 billion into a pooled budget for health and social care services to work more closely together in local areas, in order to deliver better services to older and disabled people, keeping them out of hospital and avoiding long hospital stays. This will be a pooled fund, held by local authorities. The DoH has set out their expectations that bids to the fund will be based on agreed plans from local health and wellbeing boards to drive integration improve quality and prevent people staying in hospital unnecessarily.

The pooled integration fund total of £3.8 billion includes the approximate £1 billion of funding NHS England has already committed to transfer to social care in 2014/15, and approximately £2 billion of core CCG funding. The rest of the fund is drawn from a mixture of DoH and other departments' capital grant transfers and re-ablement funding.

### *Federation response*

The Federation welcomes this announcement and the acknowledgment of the importance of joining-up health and social care budgets in improving outcomes to drive integration. Further planning will take place between DoH, the NHS and local government on how bidding and delivery of the fund will work in practice. We will look to work with Government to scope and define the opportunities for housing associations to deliver the integrated outcomes and for health and care to be commissioned jointly by the NHS and local councils. This will be essential to make the most of the opportunities the pooled fund provides given the challenging context of, and huge demand on, existing health, care and local authority-funded services.

To harness the full value of the housing association contribution to transforming health care, the delivery of the integrated fund must remove the significant barrier of cost-shunting between health and social care. This has hindered the roll out of innovative projects that could have reduced demand on the NHS and delivered better outcomes for patients by providing support and access to healthcare in the community.

## 2.7 Dilnot funding proposals for social care

### *Government announcement*

The Spending Review contains two announcements relating to the delivery of the Dilnot funding proposals for social care. These are:

- The Government will make £335 million available to local authorities in 2015/16 so that they can prepare for the introduction of the cap to individual's social care funding and the deferred payment model
- The Spending Review document seems to confirm the national minimum eligibility threshold will be set at 'substantial'

### *Federation response*

We welcome the additional investment to help the stretched social care system implement the changes to care funding. Through our lobbying on the Care Bill and our work on the Social Care Transformation Group, the Federation will continue to shape the delivery environment and make the case for the distinctive value of the housing association contribution to care services.

## 2.8 Prioritisation of spending on apprenticeships

### *Government announcement*

The Government has already delivered more than one million apprenticeship starts in this Parliament. This settlement maintains spending on apprenticeships for those aged 19 or above, which will continue to allow individuals to develop skills for the future and help businesses to secure employees with the skills they need. The Government will consult on major reform of apprenticeship funding this summer to ensure purchasing power is held in the hands of employers. The consultation will consider options to make payments to employers including reform of the Department of Business Innovation and Skills' (BIS) delivery systems and use of Her Majesty's Revenue & Customs' (HMRC) Pay As You Earn system. The Government is committed to raising the quality of apprenticeships and to implementing key reforms in the Richard Review. The Government's traineeships programme will be extended to 19-24 year olds, to help support young people to make the transition from education into work.

*Federation response*

We welcome sustained support for apprenticeships and the principle of employer-led skills funding. The Federation knows that employment, skills and apprenticeships form a strong foundation in all stable communities and we strive to create the best operational environment for our members to meet their objectives in building those communities. We work with our membership to understand and encourage best practise around apprenticeship creation, training and progression routes for apprentices. We also welcome the extension of traineeships to 19-24 year olds and are working with the National Apprenticeship Service to support our members' involvement in the work experience element of traineeships.

**2.9 HCA charging fees for the regulation service**

*Government announcement*

As part of their approach to supporting capital investment in new housing, the Government has said they will allow the HCA to charge fees for its regulation services, enabling it to strengthen its capacity to regulate an increasingly diverse sector and drive efficiencies in the social housing sector on the basis of a stronger emphasis on regulating value for money.

*Federation response*

This is not a new power, but refers to existing provisions in the 2008 Act. We will work with the HCA as part of their wider review of regulation to ensure that any fees charged for regulation represent an improvement in service.

**2.10 Simplification and de-regulation**

*Government announcement*

The Government has said that reducing regulatory burdens will increase the viability of building new homes. They have committed to a specific commitment to ensure there is a net reduction in the regulatory burdens affecting housebuilding over the current Spending Review period up to 2015. Government will publish progress reports against the house builder de-regulation commitment at Budget 2014 and Budget 2015.

*Federation response*

We welcome the Government's ambition to reduce the regulatory burden on the house building sector, however this cannot be done at the expense of the quality of homes. We have been working closely with Government on their Housing Standards Review, which seeks to streamline and simplify the 'untenable forest' of standards related to housing. An announcement on the outcome of this Review is due before summer.

**2.11 Extension of the Troubled Families programme**

*Government announcement*

Government will invest £200 million to extend the Troubled Families programme and change the way local authorities, health, education and criminal justice services work with a further 400,000 vulnerable families. These families have multiple problems which create issues for their community and have a high cost to the public sector. The programme aims to tackle problems before they need costly intervention.

*Federation response*

We welcome the extension of the Troubled Families programme. Housing associations already invest millions every year in community projects and are well placed to work with local partners to deliver innovative projects to help vulnerable families in the community.