Briefing Paper

Infrastructure and Housing

July 2013

Information

Spending Review 2013

In the Spending Review of June 2013, the Chancellor George Osborne unveiled a regime of new welfare measures, including a seven-day wait before unemployed people can claim benefits, as he identified an extra £11.5billion in spending cuts for the first year after the 2015 general election.

The Chancellor said the changes would save £350million in the year 2015/16, helping to ensure that Britain *'lives within its means'* as the economy recovers from its worst downturn in three quarters of a century. George Osborne told MPs in his statement;

"While recovery from such a deep recession can never be straightforward, Britain is moving out of intensive care, and from rescue to recovery."

The Chancellor announced in his budget in March 2013 that he would have to cut current spending by £11.5billion, or 8.5%, for 2015/16 after admitting that he would not meet his target of ensuring debt falls as a proportion of Gross Domestic Product until 2017/18. The continuing austerity will lead to the loss of automatic pay rises for civil servants, the effective abolition, by introducing a temperature test, of winter fuel payments for British pensioners living abroad, and cuts across Whitehall that will see the Communities and Local Government department's current spending budget cut by 10%. The Chancellor told MPs:

"The damage from our banking crisis is worse than anyone feared. We have to deal with the world as it is, not as we wish it to be. So this country has to continue to make savings."

The Chancellor tried to show that the coalition is committed to promoting growth when he said that Danny Alexander, his Liberal Democrat deputy, would unveil £100billion in infrastructure projects following the spending review announcement.

Infrastructure

In the Spending Review of 2013, George Osborne offset £11.5billion worth of cuts with a major sweetener of £100billion of infrastructure investment.

The details of the infrastructure investment were given in a statement by Chief Secretary to the Treasury Danny Alexander. Mr Alexander announced that the government was putting 'long term priorities before short term political pressures', he unveiled grand spending plans for Britain's railways, roads, communications and energy infrastructure, and affordable homes. However, as both the Labour frontbench and the British Chambers of Commerce have said, these are long-term priorities with the emphasis on *long*.

Details of the government's plans are included in their document 'Investing in Britain's Future' that was also released on 27th June 2013.

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Half of the £100billion announced is for projects beginning in 2015/16, with the rest for the years up to 2020/21. There are many uncertainties to consider in this time period, including the state of Britain's economy, which party or parties will be in government post-2015, whether the United Kingdom will still be in the European Union and even whether there will still be a United Kingdom. We also do not know exactly where the sources of state funding will come from in the future; it is difficult to see the Treasury giving up its fuel duty revenues any time soon. It would therefore be imprudent to read Danny Alexander's statement as a prophetic vision of things to come.

Take High Speed 2, for which Danny Alexander announced over £16billion to cover costs between 2015/16 and 2020/21. The Spending Review revealed that the construction costs for HS2 will be over £42billion, plus rolling stock costs of £7.5billion. This is considerably more than the £30billion cost quoted originally, and added ammunition for HS2's critics.

The Bill giving parliamentary authorisation for spending on the new line only had its first reading at the end of June 2013, and while the Conservative-led opposition to it was a small group of 37, its ranks may swell due to these revised cost estimates and potentially higher estimates to come. This is besides the growing HS2 opponents outside of Parliament that include campaign group StopHS2 and the Institute of Economic Affairs.

While the other £16billion announced for railway funding may be for projects with little or no political opposition, such as electrification and a new Bedford-to-Oxford rail link, critics would point out that successive British governments have a record of big promises with little delivery on rail. In the 1970s, it was said that by the 1980s we would all be zipping between cities on the West Coast Mainline at 155mph, courtesy of the tilting Advanced Passenger Train. The government funding was committed, the boffins were at work building and testing prototype trains but you can now see the final result of this promising capital spending project at the Crewe Railway Heritage Centre.

A similar sense of caution should accompany the announcement of £28billion for road improvements including a headline project for the widening of the A14 that links the Midlands to Felixstowe port. Danny Alexander announced that construction will be brought forward to 2016, but for more than a decade, local authorities, business leaders, and MPs campaigned for an upgrade to this road, only to see proposals vetoed in Parliament on cost grounds. The A14 project is likely to face new opposition on cost grounds, this time from motorists, as a key part of the financing plan is the introduction of tolls.

The announcement of £250million for super-fast broadband came just days after a legal challenge from BT and Virgin Media forced the government to back down on a £150million scheme to build superfast internet connections to homes and businesses not served by the two companies' existing networks. Part of this infrastructure scheme, repeatedly proclaimed in George Osborne's budget statements, has now been converted into a voucher scheme to help small businesses pay for their own installation of faster broadband.

The announcement of £20million for improving air links to London comes amid uncertainty over where the capital's future air hub will be located. Heathrow is pushing hard for investment to expand to accommodate future air capacity, whilst Boris Johnson pulls in the other direction for a new £20billion airport in the Thames Estuary. We will not know which side will win until the Airports Commission reports in 2015.

Finally, the Treasury's plan makes bold assumptions about the Highway's Agency. It believes that transforming it into a publicly owned corporation with long term funding, similar to Network Rail, will improve its work. The Confederation of British Industry is supportive of this, seeing the change as offering freedom from the short-term whims of politicians and certainty to plan for long-term projects. However, this assumes that highways can be funded in the same way as railways, and the Treasury's plan provides few details to demonstrate why this would work.

Infrastructure Key Points

Roads

Mr Alexander told MPs he was announcing the biggest programme of investment in Britain's roads in forty years – equating to £28billion over the five years. But a significant proportion of the projects are already well under way – while others may never start at all. Two of the most high-profile projects – making the A1 to Scotland completely dual carriageway and improving the A303 to the West Country – are merely feasibility studies at this stage. However, 25 projects, including major motorway upgrade works around congested junctions, are new.

Schools

Mr Alexander announced plans to spend £21billion by 2020 to build classrooms for more than 275,000 new primary school places and 245,000 new secondary school places. Some 150 schools in poor condition will be rebuilt by 2017. The total pot of money had been announced beforehand – what is new is how many places will be created and a speeding up of the refurbishment programmes.

Broadband

The Government had previously made a commitment that 90% of the United Kingdom population would be covered by fast broadband by 2015. But Mr Alexander has now extended this target to 95% of people by 2017.

Housing

The Government has already said it will build 200,000 new, affordable houses by the next election. Mr Alexander went well beyond that, saying the Government would build a further 165,000 houses by 2018 – a rate of 55,000 a year. But that is only marginally more than the 53,000 affordable houses that were built in 2009 and 2010 and significantly fewer than the number of affordable homes that have been built historically or that are required to meet increasing housing need.

The government considers that housing is an integral part of the United Kingdom's economic and social infrastructure, supporting labour mobility and providing a direct benefit to growth and jobs as new homes are built. The Government states that it is taking decisive action to revive the housing market, boost construction and support families, developers and institutions to invest in new homes. In particular the Government:

- Will invest £3.7billion between 2013/14 and 2015/16 in England and provide up to £12billion of guarantees across the United Kingdom, through Help to Buy. This is designed to enable the current generation to enjoy the benefits of home ownership in the same way as their parents have. The Help to Buy: equity loan scheme has supported over 4,000 new build home reservations in its first two months and will support up to 74,000 sales by 2015/16. The Help to Buy: mortgage guarantee will be in place by January 2014.

- Is providing over £3.3billion of new funding for affordable housing between 2015/16 and 2017/18 that will help support total delivery of 165,000 new affordable homes in England over the next three years; and is providing ten year certainty on social rents.
- Will radically overhaul the way that public land is sold, by centralising disposals in a single agency. Alongside significant planning reforms, including the National Planning Policy Framework, this is intended to lead to a step-change in the supply of land for development.
- Is providing £1billion of loan finance between 2013/14 and 2015/16, as well as the use of guarantees, to support new build private rented homes in England.

Flood prevention

This was a genuinely new announcement. Mr Alexander set, for the first time, a specific long-term funding settlement for flood defences, rising to £370milliom by 2016 that will be guaranteed until 2021. Ministers also announced that they had reached a deal with the insurance industry to ensure that companies did not withdraw cover from people living in areas at high risk of flooding.

Rail

Again, much of what Mr Alexander had to say was not new. He confirmed government funding for HS2, and confirmed the announcement that £9billion will be spent on major rail projects – such as the electrification of the railway from London to Cardiff by 2019. Only two new funding announcements were made: £2million to investigate the feasibility of Crossrail 2 – a new rail link between north and south London, and funding for work to begin on electrifying the line that connects Gospel Oak and Barking in London.

Prisons

This is another new announcement. The Government is investing £250million to build a new super-prison in North Wales. But much of the money will come from shutting down old Victorian-era prisons that are expensive to run.

Energy

Renewing Britain's ageing power stations, investing in renewable energy supplies and exploiting shale gas were included in Mr Alexander's statement. These projects will transform the power sector, but the Government won't really be funding them: we will all be paying for the new power stations and infrastructure through higher energy bills.

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The Numbers

The Government's planned capital investment is summarised below:

	2014/15 £billion	2015/16 £billion	Real Growth %
Education	4.6	4.6	1.7 -
NHS (Health)	4.6	4.7	0.1
Transport	8.9	9.5	5.5
DCLG Communities	4.8	3.1	35.6 -
Business, Innovation and Skills	2.1	2.5	15.3
Home Office	0.5	0.4	17.6 -
Justice	0.3	0.4	14.2
Law Officers' Departments	0.0	0.0	1.7
Defence	8.7	8.7	2.3 -
Foreign and Commonwealth Office	0.1	0.1	1.8
International Development	2.0	2.6	25.6
Energy and Climate Change	2.2	2.3	3.1
Environment, Food and Rural Affairs	0.5	0.5	7.7 -
Culture, Media and Sport	0.3	0.1	57.6 -
Work and Pensions	0.2	0.2	22.5 -
Scotland	2.8	3.0	2.7
Wales	1.4	1.5	0.3
Northern Ireland	1.0	1.1	1.5
HM Revenue and Customs	0.1	0.1	1.9 -
HM Treasury	0.0	0.0	26.3 -
Cabinet Office	0.0	0.0	31.7 -
Single Intelligence Account	0.3	0.3	24.2
Small and Independent Bodies	0.1	0.1	5.7
Green Investment Bank	0.0	1.3	n/a
Adjustment for Devolved Administrations	0.1	0.3	n/a
Spending commitments not yet in budgets	0.0	0.4	n/a
Reserve	0.9	0.5	n/a
Special Reserve	0.3	0.0	n/a
Total Capital Departmental Expenditure Limits (CDEL)	**46.9**	**48.3**	**1.3**
Technical Adjustments	3.5	1.7	n/a
Public Sector Gross Investment (PSGI)	**50.4**	**50.4**	**1.7 -**

It will be noted that the largest programmes are for transport and defence, followed by health and education. The allocation to DCLG that is mainly for housing is less than 10% of the total in 2014/15 and falls by 36% in real terms to less than 6% of the total in 2015/16. This reduction in capital expenditure on housing follows a reduction of over 60% in the 2010 comprehensive spending review that saw a larger reduction in investment in housing than any other area of government investment. Housing is clearly not a priority for the government when it comes to allocating resources. And the hoped for liberalisation of borrowing restrictions that were placed on local housing authorities as part of self-financing did not materialise.

However, non-housing local government services do not even register on the scale!

Comments

Following the announcement the Shadow Chancellor Ed Balls commented that most of the projects would not begin for four years:

"They should do an immediate boost for housing and transport this year and next… The international monetary fund says a £10billion boost is needed now… George Osborne talks about capital spending but he's not actually acting… I don't think the public buy into this at all - I think people see their living standards falling, tax cuts for millionaires, the economy flat lining, unemployment high. The plan has completely failed."

Jeremy Blackburn, Director of United Kingdom External Affairs at the Royal Institute of Chartered Surveyors, said:

“While austerity will be with us for years, action to deliver infrastructure and housing must be the focus of the here and now. Beyond being a driver of growth, infrastructure is the fabric of our everyday lives that must remain efficient and well maintained. If it was ever in doubt, it is now absolutely clear that Government recognise spending on housing and infrastructure is vital to the recovery of the UK.

“Targeted investment in road, rail and homes could finally generate sustained growth in the British economy, so it is heartening to see the additional investment put aside for 2015/16. However, tomorrow, the Chief Secretary’s announcement must ensure that this funding goes where it is so desperately needed. The repair and maintenance of the transport and energy network and building of new homes should be Government’s first priority.

“Building of new homes is way behind target, with construction workloads at historically low levels as shown by the latest RICS markets surveys, but the £3 billion extension to affordable housing will go some way to kick starting construction of much needed social housing.

“Recovery is still incredibly fragile. Well planned infrastructure projects commissioned in the right places and at the right time must deliver growth, homes and jobs in the next 18 months, providing immediate economic returns and much needed work for the construction sector.”

Housing and Local Government

The Chancellor has promised to spend £3billion on affordable housing, and set up a £2billion a year local growth fund. Announcing his spending review for 2015/16 in parliament, George Osborne said the government is committed to a ‘over £3 billion capital investment in affordable housing’, but gave no more details.

He also announced that the government is setting up a local growth fund, as recommended by Conservative peer Lord Heseltine. This will be distributed through Local Enterprise Partnerships, and could be worth £10billion over five years. Further details of the fund were included in the infrastructure announcement when it emerged that much of the funding is to come from resources that had previously been allocated to local authorities.

The government is continuing to cut departmental budgets as it seeks to reduce government spending, and the Communities and Local Government department will lose 10% of its remaining resource budget. George Osborne said the department has already cut spending by 60%, and described Communities Secretary Eric Pickles as a model for ‘lean government’.

He claimed, however, that local government spending would only decline by 2% despite the cut to the Communities & Local Government budget once other measures in the spending review are taken into account including the transfer of funding to local government from the National Health Service.

George Osborne also said that the government will spend £50billion on infrastructure in 2015, with the details announced by Chief Secretary to the Treasury Danny Alexander. The Chancellor also reiterated the government's commitment to extend its troubled families programme to an extra 400,000 families using £200million of funding. This had been announced earlier in the week.

Social Housing Analysis

Rental settlement

Whilst certainty over the rent regime is helpful, the switch from a Retail Prices Index basis to the Consumer Prices Index is likely to have a detrimental effect on housing association rental revenues over the ten year period from 2015. Over the past ten years, the cumulative effect of the difference has been that registered providers' rent revenues would have been 2.1% lower under the Consumer Prices Index regime.

Based on sector-wide rental revenues from the 2012 global accounts, analysis indicates that over the ten year period this could equate to at least £3billion lost to reinvestment into new social and affordable housing provision – almost balancing the promised level of capital investment. This could build some 20,000 unsubsidised new three bedroom homes.

Capital investment and economic stimulus

The £3.3billion of capital investment over three years is a similar annual investment to the 2011 affordable homes programme, but it is expected to support significantly more new homes than its predecessor. This may impact on the viability of registered providers as they are required to stretch balance sheets further to deliver with reduced subsidy per unit. No doubt the regulator will have a view on the increased risk implied. In the run-up to the Spending Review, house-building was proposed as a driver for economic recovery. Particularly when taking into account the likely loss from the change from the retail prices index to the consumer prices index, the numbers involved do not appear to support this.

Supply and demand

The Help to Buy mortgage guarantee scheme is already increasing demand by making it easier for people to buy homes. This is expected to continue. The measures to address the speed of land release from the public sector include changing the incentives for public sector bodies and recognise that local authorities have a part to play in land release.

Centralising the monitoring of that through a combination of the Homes & Communities Agency, the Shareholder Executive and the Government Property Unit should also be helpful. However, changing incentives can be a complex matter so the impact is only expected to become apparent in the medium term.

Impact on Benefits

Without significant additional supply, pressure on market rents will also continue to increase. Rental inflation feeds through to housing benefit, which adds further pressure to the overall benefits bill. This increases the impact of capping Annual Managed Expenditure. However, welfare reforms, especially universal credit, are designed to break the direct link between rents and benefits in the long-term.

Regulation

HM Revenues & Customs is to face a budget reduction of 5% despite government increasing their target for raising additional revenue. In addition, the announcement that the Charity Commission is to have its funding further reduced in 2015/16 also points to a trend of government requiring cheaper regulation. Therefore, the opportunity for the Homes & Communities Agency to charge fees for its regulation services is welcomed by some in the sector provided that they are used to increase the capacity for and quality of regulation.

It is also possible to argue that the lack of funding for regulation and revenue collection is likely to result in deterioration in performance that will result in these measures turning out to be false economies.

Key Housing and Local Government points

The key points in relation to housing and local government are:

- Government will invest more than £3billion in affordable housing, but provided few further details about the investment.
- Housing Benefit will be included in the overall benefit cap.
- A new social rent formula will see landlords able to increase rents by the consumer price index of inflation (CPI) + 1%, for a period of ten years, providing landlords with greater certainty over their future finances.
- The Department for Communities and Local Government budget has been cut by a further 10%
- Council Tax will be frozen for a further two years.
- Michael Heseltine's local growth fund will be funded with £2billion a year for the next five years.
- £3.8billion will be invested in a single pooled fund for health and social care to encourage greater integration and prevent long hospital stays for older and disabled people.

Danny Alexander said regarding housing:

"Mr. Speaker, our new approach to housing is truly transformative. Our Help to Buy scheme is already getting people onto the ladder. But put simply, this country does not have enough homes that people can afford. A good home should not be a luxury for the few, but an achievable aspiration for the many.

"But our housing associations have told me they can do more. To do this, they need certainty on rents alongside public investment. Today I can do both of these things. I can guarantee social rents will be set at consumer prices index plus 1% out to 2025. That's the longest period ever.

"And I can provide £3billion more capital over three years from 2015… … to deliver 165,000 new affordable homes. On average, that's more each year than in any of the last twenty years. Getting more for tax-payers, and more for this country.

"This Spending Round also funds over 2,500 more new homes specifically designed for older and disabled people, £160 million for Decent Homes, mainly in London. An issue I know is important to many MPs, in particular the Rt Honourable Member for Bermondsey and Old Southwark. The most ambitious and significant investment in affordable housing for a generation."

And on highway maintenance he added:

"We are committing £10billion of investment in road repairs between 2015/16 and 2020/21. More than £4billion of that money will be spent on national road maintenance – enough to resurface over 21,000 miles of road; the equivalent of London to Beijing and back. The other £6billion of that money will be spent at a local level – allowing Local Authorities to fill the equivalent of nineteen million pot holes a year.

Housing Reaction

David Orr, chief executive of the National Housing Federation, said:

"The news that rents will be set to consumer prices index plus 1% for ten years is a positive step. This could help housing associations to start planning the construction of more homes and allow them to focus on tackling Britain's desperate housing crisis. But the full implications for the housing sector depend on tomorrow's announcement on the detail of the capital spending for housing."

Grainia Long, Chief Executive at the Chartered Institute of Housing, said:

"We are concerned about the rent settlement of consumer prices index plus 1% for social housing because it could reduce landlords' income and therefore their ability to invest in existing and new homes… We are seriously concerned about the welfare cap and specifically the inclusion of housing benefit within it. We believe that housing benefit is affected by cyclical changes to the economy – placing a cap on this could limit help with housing costs at times when households need it most."

Mark Henderson, chief executive at Home Group housing association, said:

"We have been calling for income certainty for a long time and today's announcement makes it clear what we can expect from rents over the coming months and years… The government is investing heavily to tackle the blight of bed blocking. The number of patients, many of them elderly, who are trapped in hospital due to the lack of joined up social and medical care is an enormous drain on the National Health Service."

Conclusions

Long-term changes to our society, economy and environment all require us to think radically about what local services look like including housing and the infrastructure within our communities. But to do this to their full potential, councils need equally radical autonomy on how they spend (and indeed raise) money. This Spending Review did not deliver that and the changes to housing and the infrastructure of the country may only be token gestures when the long term future looks bleak.

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Value for Money and Performance Management in Local Government and Housing

'AWICS' is holding a seminar on 'Value for Money and Performance Management in local Government and Housing' in London on 17th September 2013. This seminar will look in detail at how Housing Associations and Local Authorities can achieve improved Value for Money and effective Performance Management in the context of the June 2013 Spending Review. The presenter will be Adrian Waite, Managing Director of 'AWICS' Limited, Chair of Impact Housing Association and former Strategic Director at Copeland Borough Council. The presentation will be illustrated with practical examples drawn from Impact Housing Association and other housing associations and local authorities.

The seminar considers:

- The June 2013 Spending Review, the Political, Economic, Social and Technical Context and the Threats and Opportunities that this creates
- Approaches to achieving improved Value for Money and effective Performance Management
- Value for Money obligations of Local Authorities and Housing Associations
- Service Transformation and Re-Engineering
- Systems thinking and the LEAN approach
- Balanced Scorecards and Benchmarking
- Value for Money and the Customer
- Asset and Project Management
- The role of Boards and Councillors
- Case Study: Impact Housing Association and 'Transforming Impact'
- Participatory Session and Opportunities for Networking
- Implementing the Performance Management and Value for Money Strategy
- Motivating and Empowering People
- Embedding Value for Money and Performance
- Delivering a 'Step Change'

The seminar includes a participatory session and opportunities for networking and is accompanied by a very useful book entitled: 'Value for Money and Performance Management in Local Government and Housing'.

Further details can be found at http://www.awics.co.uk/performance_management_seminar.asp

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about us and our services please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk

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