On-the-day briefing

NORTHERN Housing Consortium
THE VOICE OF HOUSING IN THE NORTH

Budget Statement Monday 29th October 2018

Introduction

The Budget was delivered on Monday 29th October, with the Chancellor Philip Hammond stating it was a "Budget for Britain's Future" and "unashamedly for the strivers who are the backbone of Britain".

The Budget comes earlier than usual this year, and is the last one before Brexit.

It also takes place on a Monday as opposed to the traditional Wednesday. Not, we were assured, to avoid any superstitions related to All Hallows Eve but related to the fact that the Government has a looming Brussels deadline and the Finance Bill needs to pass through Parliament before any potential Brexit legislation is presented before MPs.

There have been some very welcome recent announcements for the social housing sector: confirmation of the lifting of councils' borrowing cap, the publishing of the Social Housing Green Paper and the Prime Minister's announcement for £2bn of extra funding for housing associations. But the public sector was waiting for bigger news at this Budget. This follows the PM declaring in October that the Government's eight-year programme of austerity is "over" as she used her Conservative Party conference speech to announce "there are better days ahead".

This raised hopes of a significant increase in public spending and put pressure on the Chancellor to ensure that his Budget contained some optimism for public services and not continued cuts.

Some cold water was thrown onto this optimism prior to the Budget when the Institute for Fiscal Studies said ending austerity would mean higher borrowing and higher taxes. The Chancellor very guardedly stated "the era of austerity is coming to end" – something considerably more cautious than the PM had offered.

This year's Budget as it turned out was more of a curtain raiser for far bigger decisions on spending, tax and borrowing which will come after the UK's departure from the EU next March and it set the scene for the 2019 Spending Review.

Key Announcements

- Spending Review 2019 – promise to deliver public sector spending
- Planning reform: supporting the high street and simplifying the conversion of new homes
- The independent review of build out led by the Rt Hon Sir Oliver Letwin MP was published with the Budget

- Private shared homeownership: call for proposals
- Stamp Duty extended to shared ownership
- Housing Infrastructure Fund - £500m additional funding to unlock 650,000 homes
- Next wave of strategic partnerships with nine housing associations
- British bank guarantees for SME house builders
- Funding to empower 500 neighourhoods to allocate homes to local people in perpetuity
- Evaluation of Help to Buy Equity Loan Scheme
- Supporting Housing Delivery through Developer Contributions
- Universal Credit – changes to ensure the system works

Main Proposals

Public Sector Investment

In his Spring Statement in March, the Chancellor indicated a willingness to invest in public services if finances improve. Forecasts have indicated this is the case. The Government recently recorded the biggest budget surplus for the month of July in 18 years with the Chancellor declaring the "hard work has paid off". The deficit has fallen to its lowest level since 2001 and debt has started its first sustained fall in a generation.

The Chancellor confirmed he would deliver on the promise to invest in public services – but at next year's Spending Review due in the spring.

He claimed the Brexit 'Deal Dividend' would provide further funding for the Spending Review.

On NHS spending, he confirmed a 10 year plan will be published shortly. He announced significant mental health support with a crisis service, comprehensive support in A&E, children's mental health support in all parts of the country and a 24 hour hotline.

On social care funding – In the short term, the Budget provides an additional £240 million in 2018-19 and £240 million in 2019-20 for adult social care. This will make sure people can leave hospital when they are ready, into a care setting that best meets their needs. This will help the NHS to free up the beds it needs over winter. In the longer term, the Government is committed to putting social care on fairer and more sustainable footing and will set out proposals for adult social care in the forthcoming green paper.

The Budget provides a further £410 million in 2019-20 for adults and children's social care. Where necessary, local councils should use this funding to ensure that adult social care pressures do not create additional demand on the NHS. Local councils can also use it to improve their social care offer for older people, people with disabilities and children.

The Budget provides councils with an additional £55 million in 2018-19 for the Disabled Facilities Grant to provide home aids and adaptations for disabled children and adults on low incomes.

Children's social care improvement – the Budget provides £84 million over 5 years for up to 20 local authorities, to help more children to stay at home safely with their families. This investment builds on the lessons learned from successful innovation programmes in Hertfordshire, Leeds and North Yorkshire.

NHC Reaction

The headline issue in this Budget was paying for the £20bn increase in funding for the NHS, which was expected to be paid for in tax alterations and the abandonment of tax cuts.

Experts at the Institute for Fiscal Studies calculate that just keeping spending on services in line with inflation, while funding generous rises promised for health, defence and aid, would cost the Chancellor £19 billion.

The Government has yet to publish its much-anticipated social care green paper, one of its core policy proposals, for which it has been heavily criticised.

It is vital that the Government addresses the growing funding gaps facing councils in 2019/20. The Chancellor said this would be dependent upon a 'smooth exit' from the EU.

The public sector would understandably have been looking for a sustainable funding settlement for local government, and unlocking investment into prevention and early intervention alongside additional financial freedoms and flexibilities for councils.

If the Government fails to adequately fund local government there is a real risk to the future financial viability of services and councils. Many local authorities will reach the point where they only have the funds to provide statutory responsibilities.

High Streets

The Government announced cutting bills by one-third for retail properties with a rateable value below £51,000, benefiting up to 90% of retail properties, for 2 years from April 2019, subject to state aid limits.

In the longer term, to support a sustainable transformation of high streets, the Plan includes a £675 million Future High Streets Fund, planning reform, a High Streets Task Force to support local leadership, and funding to strengthen community assets, including the restoration of historic buildings on high streets.

High streets planning – the Government will consult on planning measures to support high streets to evolve. As part of this, it will consult on creating a more flexible and responsive 'change of use' regime with new Permitted Development Rights that make it easier to establish new mixed-use business models on the high street. It will also trial a register of empty shops with selected local authorities, and trial a brokerage service to connect community groups to empty shops.

NHC Reaction

There were rumours before the Budget that the Chancellor was eyeing up changes to the planning system to accelerate the redevelopment of empty shops into housing. The Chancellor will make it easier to convert empty retail units into homes and offices and enable different businesses to operate on the same site.

This is part of the Government's exploration of ways to reshape town centres to allow more homes to be created while still preserving high streets that are popular with shoppers.

For this to work it will have to be part of a holistic solution that gives education, leisure and health a bigger presence on the high street. But we welcome the pragmatic approach about how we use the existing space and this will contribute something to solving the housing crisis.

Housing & Planning

At Autumn Budget 2017, the Government set out a comprehensive package of new policies to raise housing supply. At this Budget, the Government sets out further steps to deliver this ambition including:

- £291 million from the Housing Infrastructure Fund, funded by the National Productivity Investment Fund (NPIF), to unlock 18,000 new homes in East London through improvements to the Docklands Light Railway
- the British Business Bank will deliver a new scheme providing guarantees to support up to £1 billion of lending to SME housebuilders
- providing £653 million to 2021-22 for strategic partnerships with nine housing associations to deliver over 13,000 homes

- £75 million from the Home Building Fund for St Modwen plc, to fund infrastructure to build over 13,000 new homes
- a new five-year strategic business plan for Homes England, to be published on 30 October 2018

Housing investment for the long term - the Government announces in this Budget that:

- the Housing Revenue Account cap that controls local authority borrowing for house building will be abolished from 29 October 2018 in England, enabling councils to increase house building to around 10,000 homes per year
- the Housing Infrastructure Fund, funded by the NPIF, will increase by £500 million to a total £5.5 billion, unlocking up to 650,000 new homes

Accelerating housing delivery – alongside the Budget, Sir Oliver Letwin has published his independent review of the gap between housing completions and the amount of land allocated or permissioned. The review found “no evidence” that speculative land banking is part of the business model for major house builders, nor that this is a driver of slow build out rates. The review concluded that greater differentiation in the types and tenures of housing delivered on large sites would increase the market absorption rates of new homes – the binding constraint on build out rates on large sites – and has set out recommendations to achieve this aim. The Government will respond to the review in full in February 2019.

In order to minimise uncertainty for housebuilders, the Government confirms that Help to Buy Equity Loan funding will not be made contingent on large sites with existing outline permission being developed in conformity with any new planning policy on differentiation. The Government will honour any funding commitments made to sites with existing outline planning permission, regardless of any new planning policy on differentiation.

Planning reform – the Government has already revised the National Planning Policy Framework, implementing 85 of the proposals set out in the Housing White Paper and Autumn Budget 2017, ensuring that more land in the right places is available for housing. The Budget announces that the Government has launched a consultation on new permitted development rights to allow upwards extensions above commercial premises and residential properties, including blocks of flats, and to allow commercial buildings to be demolished and replaced with homes.

Land value uplift – the Government confirms that it will introduce a simpler system of developer contributions that provides more certainty for developers and local authorities, while enabling local areas to capture a greater share of uplift in land values for infrastructure and affordable housing. The reforms include simplifying the process for setting a higher zonal Community Infrastructure Levy in areas of high land value uplift, and removing all restrictions on Section 106 pooling towards a single piece of infrastructure. The Government will also introduce a Strategic Infrastructure Tariff for Combined Authorities and joint planning committees with strategic planning powers.

Strategic housing deals – the Government will make £10 million capacity funding available to support ambitious housing deals with authorities in areas of high housing demand to deliver above their Local Housing Need.

Help to Buy Equity Loan – the Budget announces that from April 2021, a new Help to Buy Equity Loan scheme will run for 2 years before closing in March 2023. The new scheme will be available for first-time buyers only, and for houses with a market value up to new regional property price caps. These caps are set at 1.5 times the current forecast regional average first-time buyer price, up to a maximum of £600,000 in London. The Government does not intend to introduce a further Help to Buy Equity Loan scheme after March 2023.

Shared ownership – to support homeownership further, the Government is launching a call for evidence inviting proposals from investors willing to collaborate with Government to deliver a new wave of shared ownership homes.

New discounted homes in up to 500 neighbourhoods – the Government wants to see parishes and communities provide many more homes for local people to buy, at prices they can afford. The Government will provide £8.5 million of resource support so that up to 500 parishes can allocate or permission land for homes sold at a discount. Neighbourhood plans and orders are approved by local referendums, and the Government will update planning guidance to ensure that these cannot be unfairly overruled by local planning authorities. The Government will also explore how it can empower neighbourhood groups to offer these homes first to people with a direct connection to the local area.

NHC Reaction

Housing Revenue Account - announced prior to the Budget, Government has removed the borrowing cap by issuing a determination revoking previous determinations that specified a local authority's limits on indebtedness. Measures will come into force on 30 October. From that date, HRA borrowing will be restricted by the Prudential Code only.

Abolishing the HRA Cap was one of the Prime Minister's key announcements at the Party Conference to signal the end of an era of austerity. The PM said the Government would scrap a legal cap that limits how much councils can borrow to build new homes - a move No. 10 officials admitted would increase public sector debt.

This ends six years of strict controls on how much councils are allowed to borrow. It follows years of campaigning by local authorities desperate to deal with a major shortage of social housing.

The decision will mean an extra £1bn a year spending on housing by 2021-22. However it leaves the Chancellor with a major headache as he has to account for the cash which forms part of the national accounts. This will not only add an extra £1bn to the deficit but also further constrains room for manoeuvre in other domestic spending, as he already needs to find money to fund the NHS.

In last year's autumn Budget councils in areas of "high affordability pressure" were offered £1bn of extra HRA borrowing headroom over three years. This demonstrated demand to build. Bidding for that programme, which closed just three days before the Prime Minister's announcement, is understood to have been heavily oversubscribed.

Freeing councils to resume their historic role as a major builder of affordable homes would boost home ownership, reduce homelessness and shift spending from benefits to bricks driving down the Government's housing benefit bill.

Local authorities have hit the ground running. Within days of the announcement, dozens of local authority leaders have pledged an immediate drive to build thousands more council homes by exploiting new rules.

This could be one of the biggest council house-building programmes since the 1970s. While councils built more than 100,000 homes a year in the 1970s, they built fewer than 3,000 in 2016-17. Ministers expect to see councils build another 10,000 homes a year, borrowing around £1bn between them.

The Letwin review's final report makes recommendations on how to close the significant gap between the number of housing completions and the amount of land allocated or permissioned on large sites in areas of high housing demand. The claim that there was no evidence of landbanking by large developers was met with some derision in the House but there is at least more certainty for developers and local authorities.

Taxation

Consultation on Stamp Duty Land Tax (SDLT) charge for non-residents – The Government will publish a consultation in January 2019 on a SDLT surcharge of 1% for non-residents buying residential property in England and Northern Ireland.

SDLT and first-time buyers relief – the Government will extend first-time buyers relief in England and Northern Ireland so that all qualifying shared ownership property purchasers can benefit, whether or not the purchaser elects to pay SDLT on the market value of the property. This change will apply to relevant transactions with an effective date on or after 29 October 2018, and will also be backdated to 22 November 2017 so that those eligible who have not previously claimed first-time buyers relief will be able to amend their return to claim a refund.

Capital gains tax – to target private residence relief at owner occupiers, from April 2020 the Government will reform lettings relief so that it only applies in circumstances where the owner of the property is in shared occupancy with the tenant. The final period exemption will also be reduced from 18 months to 9 months. The Government will consult on these changes. There will be no changes to the 36 months final period exemption available to disabled people or those in a care home.

NHC Reaction

Mr Hammond scrapped stamp duty for first-time buyers in last year's Budget to help people get on the property ladder. Estate agents say homeowners aren't trading up for larger properties because of punitive stamp duty rates on more expensive homes - which is restricting the supply of smaller homes for first-timers and generally putting a brake on the property market.

Further intervention on stamp duty rates higher up the ladder is bound to be welcome and it comes without significant additional cost to the Exchequer.

Welfare and Universal Credit

Ahead of the further expansion of Universal Credit, the Budget announced other changes to the system.

Universal Credit Work Allowance increase – the Budget announces that the amount that households with children and people with disabilities can earn before their Universal Credit award begins to be withdrawn – the Work Allowance – will be increased by £1,000 from April 2019. This means that 2.4 million households will keep an extra £630 of income each year.

Extra help for households moving onto Universal Credit – the Budget announces an extensive package of extra support worth £1bn over 5 years for claimants as they make the transition from legacy benefits to Universal Credit.

The Government will deliver these changes slowly and carefully. In response to feedback on Universal Credit, the implementation schedule has been updated: it will begin in July 2019, as planned, but will end in December 2023.

NHC Reaction

The rollout of the Government's flagship Universal Credit has been beset by criticism from all sides of the House of Commons. In the weeks before the Budget, ministers were under pressure, including from Conservative backbenchers, to ensure claimants would not be worse off as they transitioned to the new system. The former Prime Minister Sir John Major said that the welfare overhaul could be as damaging to the Conservatives as the poll tax was in the 1980s.

Nearly three-quarters of households on Universal Credit are in rent arrears compared to 26% of all households.

There are still around £7 billion worth of previously announced benefit cuts that are working their way through the system. In addition to this, the Government is under a lot of pressure from MPs in their own party to find more funding for the Universal Credit system. Experts have predicted that reversing cuts to the new benefit, which was imposed in 2015, could cost anything between £2-5 billion. The Chancellor is under pressure to rescue the ailing benefit.

We will await with interest further details on how the additional £1bn will be used to support claimants.

Conclusion

All in all a relatively 'quiet' Budget that maintains the UK's competitiveness and attractiveness as a place to do business leaving the Chancellor with options to respond at a later date to Brexit in whatever form it takes.

So, he has used the Budget to give himself a bit of breathing space - but will look to come back in the spring with fuller proposals.

The Office for Budget Responsibility's upward revision of tax receipts will have taken some heat out of the need for tax increases. This has given the Chancellor the option of delivering a light touch Budget, leaving his powder dry on tax changes until Brexit terms are clearer.

It's clear the Government accepts housing associations have a vital role to play in the market. Part of this is down to the innovative and progressive approach organisations have taken in recent years. The Government now expects a continued push from the sector to increase housebuilding rates. This is as it should be. If we are to see a boom, it must be based on collaboration between the public and private sectors, with housing associations and councils playing a pivotal role between them.

Despite this good news, the impact of the rent cut, the Right to Buy and Welfare Reform still loom large and are seen as more important than the borrowing cap by some councils. Suspicion remains that the Treasury is not exactly enthusiastic about a move that will increase public borrowing under current rules.

Finally, the Government confirmed it will publish a refreshed Northern Powerhouse Strategy next year. We are pleased that the Chancellor has restated his commitment to the Northern Powerhouse – the Government will now need to deliver.