What does the CSR mean for growth?

Edited highlights

- Housing Growth Funding comes to an end in March 2011.
- CLG budgets reduced by 54% (admin and programmes) and 74% (capital)
- RGF introduced, providing £1.4bn over 3 years, to cover more issues than previous HGF
- LEPs introduced, which may bid for RGF along with other partnerships, and the GCGP LEP gets go-ahead to develop.
- The new Laboratory of Molecular Biology at Addenbrooke's is to receive a share of an associated £220m funding pot (part of the Science Budget)
- Tax Increment Finance legislation is to be introduced. Initially TIF will be piloted on a bidding basis.
- Interest rates on Public Works Loan Board (PWLB) loans will rise to 1% above UK government gilts.
- Current A14 scheme (Highways Agency £1.3bn) withdrawn – alternative options being investigated. Particular effect on Northstowe, NIAB and North West University sites.
- DECC will reduce resource spending by 18%, and increase capital spend by 41%. A new Green Investment Bank will have £1bn of funding but not until 2013/14.
- £1 billion funding will go to building a power station which captures and stores carbon emissions. £200 million goes to offshore wind technology and manufacturing.
- The feed-in tariff is set to remain, with a planned review in two years.
- The Warm Front programme, which provides insulation and energy efficiency will be scaled back and the new "green deal" will target the most vulnerable to help tackle fuel poverty.
- £300milion cut from bus schemes.
- The removal of Private Finance Initiative (PFI) funding from seven waste projects.
- For housing, new target of 150,000 new affordable homes over the next 4 years.
- New Homes Bonus introduces a fiscal incentive for local authorities to deliver new homes, from April 2011. Consultation on scheme design in November 2010.
- Rationalise standards and regulations to reduce the cost of housing development. Involves removing all non-building regulation requirements – impacts CSH and HCA build standards.
- Make the HCA a much smaller investment and enabling agency, tasked with working more closely with Local Authorities. Announced reduction by 70% in operating costs, and change of regional offices and structure. Consultation with staff due in January 2011.
- Introduction of new "affordable rent" product whereby higher rents are charged by social landlords, if they wish to continue to develop new homes in future. The new tenure is less secure than traditional affordable housing, enabling the landlord more flexibility in use of housing stock.
- Major changes to benefits and local housing allowances, with implications for affordability, stock management, housing conditions, and especially homelessness. Discourages underoccupation by working age households in affordable housing. Supports people aged up to 35 living in shared accommodation, in private rented sector. Cuts the amount of rent supported by benefits and introduces an overall ceiling.

Current position

At present, Cambridgeshire benefits from a programme of Housing Growth Funding and strong partnership working (including a Local Delivery Vehicle, Cambridgeshire Horizons) to help delivery much – needed growth to support a thriving and potentially growing economy, in an area of extremely high housing need and demand.

Cambridgeshire is an area with a high proportion of employment emanating from the public sector, which is inevitably reducing under recent changes implemented by CLG. These include the end of EEDA, Go-East and other partners which employ a significant number of people. Local authorities have also prepared for cuts to central funding in the order of 30%, leading to a reduction in jobs available.

In 2009-11 we secured around £22m of HGF. Since 2004 we have secured £100m growth funding in total. This has delivered (to summaise):

- Addenbrooke's access road (£25m)
- Flexible Fund investments in Southern Fringe sites (£12.5m)
- Milton Park and Ride (£6.35m)
- Riverside Bridge (£2m)
- Wicken Fen (£1.3m)
- St Neots creative exchange (£1.2m)
- Mayfield Road, Huntingdon (£1m)
- The HIVE (ongoing)
- Hunts Gym (£500,000)
- Nene Waterfront (£1.7m)
- Orchard park (£50,000)
- Arbury Grid Station

Our major development sites are making progress, though all at different stages. Announcements on changes to growth funding, housing planning and delivery grant, and resources for local authorities will all potentially affect our ability to deliver planning permissions and to support development on site.

Effect of the 2010 CSR

Funds and Funders

Changes at CLG

Communities and Local Government took the deepest cuts of any government department. Their administration and programme budget is being cut by 51% and their capital budget by 74%.

The end of HGF (Housing Growth Fund)

The spending review document unequivocally states that growth funding will end as part of the rationalisation of funding streams, so it's clear that no further HGF will be forthcoming. There is no mention of whether unspent HGF might be clawed back. This means no ongoing programme which in the past has delivered an average of £14m per year.

The Role of Regional Growth Fund (RGF)

RGF will have a number of roles, such as replacing Regional Development Agency funding streams and Growth Area funding (Housing Growth Fund), all of which are being discontinued. The CSR document states that its purpose is, 'supporting investment in infrastructure that underpins economic growth and the Work Programme'. The Work Programme will provide personalised back-to-work support for the long term unemployed, through incentives to the private sector. The private sector and public-private partnerships will be able to bid for RGF. An explicit link to Local

Enterprise Partnerships is mentioned, noting that their function is to provide strategic leadership, set out economic priorities, and help rebalance the economy towards the private sector.

The fund's focus will be areas that are currently 'too dependent' on the public sector and projects with 'significant potential for private sector economic growth and employment'. Bids will be assessed by a panel chaired by Lord Heseltine.

RGF will run for three years and amount to £1.4 billion in total, £890m of this from CLG's budget. The table below shows the distribution of this total sum.

Table 2.5 Regional Growth Fund

	£ million				
	2010-11	2011-12	2012-13	2013-14	2014-15
Resource DEL[1]	–	215	205	420	–
Capital DEL	–	280	300	–	–
TOTAL	–	495	505	420	–

[1] In this table, Resource DEL excludes depreciation and AME excludes non cash items.

Source: http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf

For comparison purposes, the table below shows Regional Development Agency and Housing Growth Fund budgets (capital and revenue) from 2008-11.

	Approximate 2008-11 Budget
All Regional Development Agencies	£6,548,000,000
East of England Regional Development Agency	£389,000,000
Total Housing Growth Fund	£700,000,000
Cambridgeshire Allocation of HGF	£38,000,000
Peterborough Allocation of HGF	£19,000,000

Sources: http://webarchive.nationalarchives.gov.uk/+/http://www.berr.gov.uk/regional/regional-dev-agencies/funding-financial-gov/page20136.html

http://www.homesandcommunities.co.uk/growth_fund

The government is encouraging links to be made between Regional Growth Fund and other funding streams, such as European Regional Development Funding and use of public assets, in order to maximize the total impact of RGF. Existing work on Making Assets Count could therefore add weight on an RGF bid.

Further information on Regional Growth Fund is anticipated in the forthcoming White Paper on local growth. As yet, no guidance has been released on the bidding process for RGF, although this is expected imminently. The spending review states that there will be several rounds of RGF bidding, with the results of the first round to be announced before the end of 2010/11. A deadline for the submission of bids has not been set, however January 2010 is a likely timescale.

Local Enterprise Partnerships (LEPs)

The CSR make several references to LEPs as bidders for RGF, although not the exclusive bidders. No funding support for the establishment of LEPs is mentioned. It seems likely that further detail of LEPs will be includes in the forthcoming local growth White Paper.

Tax Increment Finance (TIF)

More details and new powers to allow TIF are promised by the CSR in the forthcoming White Paper on local growth. There is no mention of any funding to support the use of TIF.

Update following White Paper: Tax Increment Finance legislation is to be introduced. Initially TIF will be piloted on a bidding basis.

The Science Budget

The £4.6bn budget for scientific research has come out of the CSR relatively unscathed – it will be frozen rather than cut. Nonetheless, £324m efficiency savings are proposed. The government intends to 'increase the focus on excellence'. Medical Research Council spending is to be maintained in real terms, and the new Laboratory of Molecular Biology at Addenbrooke's is to receive a share of an associated £220m funding pot.

Cost of Public Sector Borrowing

Interest rates on Public Works Loan Board (PWLB) loans will rise to 1% above UK government gilts. The rationale appears to be to provide local authorities with flexibility whilst reflecting the shortage of capital within public finances.

Interestingly, the yields for gilts have recently hit record lows. The Telegraph quotes a 1.43% benchmark here: http://blogs.telegraph.co.uk/finance/jeremywarner/100008271/why-government-bond-markets-have-gone-mad-and-bad/

Site and project specifics

A14

The A14 Ellington to Fen Ditton scheme was to cost over £1 billion to build. The Government recognised that the A14 corridor faced severe congestion, and that mobility along the route is critical for economic success and growth. However, the current scheme was judged to be unaffordable under any future funding scenario. The Department therefore withdrew the current scheme. They will undertake a study to identify cost effective and practical proposals which bring benefits and relieve congestion - looking across modes to ensure we develop sustainable proposals. This approach will also provide an opportunity for the private sector to play its part in developing schemes to tackle existing problems in the corridor.

The Highways Agency "nil detriment" issue may kill the growth agenda so we need some flexibility quickly. We urgently need to see the Highways Agency "Plan B".

CGB will free up an as yet unknown amount of capacity but all developers will be keen to claim this.

Further update on transport, 26 Oct 2010

Transport Secretary Philip Hammond gave a major boost to the UK economy today (26 Oct 2010) by announcing the go-ahead for a further 16 road and public transport schemes. Along with the 8 schemes announced by the Chancellor last week (in the CSR) work will therefore begin on a total of 24 schemes as a result of the Department for Transport's spending review settlement.

None of these schemes are in Cambridgeshire. However in addition, the Transport Secretary announced a pot of over £600m of funding for further local authority projects. Local authorities will be invited to bid for this funding over the next few months. Councils will be challenged to consider the cost, scope and possibility of local funding when bidding.

The NIAB site

The NIAB development has had a condition placed on it which only allows 350 dwellings to be completed, without either the A14 Ellingdon to Fen Ditton scheme, or some alternative intervention which improves the performance of the A14 to the satisfaction of the Highways Agency.

North West University site

The full North West scheme (of up to 1500 homes for University staff and accommodation for 2000 postgraduates and 1500 private houses) is dependant on the A14 improvements being completed. A planning application has not been submitted and the transport modeling has yet to be completed. The University has indicated that until the full implications of the decision to withdraw the A14 scheme are known, they will not submit their planning application.

Orchard Park

The original 900 dwellings at Orchard Park have consent; however a further three sites has been forwarded for development. Of these, the HA have stated they will not condition two sites; however the decision may have an impact on the third site. The HA, Promoters and the Local Authority are in discussions to understand the implications for the third site.

Northstowe

The HCA will become a leaner investment and enabling body, the effect of this on Northstowe is as yet unclear.

The full development of Northstowe (9,500 homes) is reliant upon the delivery of the A14, in particular the middle section of the scheme from Fen Drayton to Histon (Cost £314.5m). This provides for the construction of interchanges at the Bar Hill and Dry Drayton junctions to access the new link roads to Northstowe.

The Joint Promoters of Northstowe and the Highways Agency were undertaking work to understand the relationship between the A14, the housing trajectory and other transport measures. This work has not been completed, leaving uncertainty over how many homes can be delivered without the A14 proceeding.

This leaves a number of options open to the Local Authorities;

- Explore alternative options- Partial A14 scheme or a private toll road which would allow the full scheme.

- Gallagher just complete the proposed 1st phase and a feasibility study is carried out on the proposed 2nd phase to see whether this would be possible.

- The HCA promote a scheme for 1500+ houses on their land – the advantage of this option is that it would public sector led, giving greater control; and may deliver a higher quality scheme.

- We look for alternative sites to deliver the homes.

In **Godmanchester**, the A14 will also affect a planned 700 home scheme.

The Environment

The Department of Energy and Climate Change will reduce resource spending by 18% in real terms, and increase capital spending by 41% in real terms.

- The new Green Investment Bank will have £1bn of funding (plus unknown amounts from unspecified asset sales), but not until 2013/14. It will apparently de-risk projects in a similar way to the Low Carbon Development Initiative (LCDI), bringing in private investment.

- £1 billion funding will go towards building one of the first power stations in the world with technology to capture and permanently store carbon emissions, to help cut greenhouse gases from electricity generation.

- £200 million will go to developing offshore wind technology and manufacturing, and support the upgrade of ports to support the industry.
- The feed-in tariff which pays people for small scale green electricity generation is set to remain as it is until an already planned review in two years' time.
- The proposed renewable heat incentive will also go ahead with £860 million funding.
- The Warm Front programme, which provides insulation and energy efficiency (particularly to poorer households) will be scaled back and the new "green deal" will target the most vulnerable to help tackle fuel poverty.
- CRC - Under the scheme, which was introduced earlier this year, companies made upfront payments to the Treasury on the understanding that they would get the money back by reducing emissions, however this money totalling £1bn a year by 2014-15 will be used to support the public finances, including spending on the environment, rather than recycled to participants. This proposal has been attacked by business leaders as a stealth tax.
- £300milion cut from bus schemes.
- The removal of Private Finance Initiative (PFI) funding from seven waste projects as announced in the Spending Review.
- The Government will review the work delivered at arm's length by bodies such as the Carbon Trust, Energy Saving Trust, the Coal Authority and the delivery arm of Ofgem.

DECC will issue guidance to re-emphasise best practice on heating, cooling and lighting Government buildings. This guidance will encourage departments to reduce waste on energy costs, helping to reduce the Government's £95 million annual energy bill, whilst saving carbon emissions at the same time.

Housing: the headlines

Government announces it is still investing nearly £6.5 billion in housing, with £4.5 billion to fund new affordable homes over the Spending Review period. This is a cut of £4bn. Part of this will provide £200m for the Mortgage Rescue scheme to support vulnerable homeowners threatened with repossession and £100 million to bring empty homes back into use.

Increasing supply: the review aims to…

- Increase housing supply – "by devolving power to local people and stimulating increased private sector investment".
- Target of 150,000 new affordable homes over the next 4 years
- Introduce the New Homes Bonus, a fiscal incentive for local authorities to deliver more homes. Set aside over £900m of funding and the scheme will match fund the Council Tax on every new home for each of the following six years. Starts April 2011. Consultation on scheme design in November 2010.
- Give Local Authorities the freedom to borrow against tax revenues and will also provide access to a Regional Growth Fund to fund capital projects which could support housing growth and market renewal schemes, to support growth.
- Rationalise standards and regulations to reduce the cost of housing development.
- Make better use of surplus public land to support housing and other locally-driven development.

- Make the HCA a much smaller investment and enabling agency, tasked with working more closely with Local Authorities.

Affordable Housing – "investing and innovating" – the CSR will…

- Continue to provide valuable support to households who cannot afford to meet their own housing needs in the future through affordable housing
- Retain security of tenure for existing social tenants, providing a home for life. However not all families will need lifelong subsidy.
- Give local authorities and housing associations a wider range of options for meeting the challenges different families face.
- Provide a more flexible system of affordable housing offering stability when it's needed; help people move for work; and protect vulnerable households.
- Housing associations will have another option to offer households who need support for a fixed period, called "Affordable Rent". ;-) Will allow "greater flexibility, focus state support on those in greatest need for as long as they need it and secure greater value for money for taxpayers". Will set out further details on these reforms shortly.
- Note: however alongside housing benefit and LHA changes, serious doubts as to who will be able to afford "affordable rent". Quite possibly many people on the housing needs register won't be able to afford intermediate rented, particularly if LHAs won't cover more than £400 rent per month.
- Invest £2 billion of capital funding to complete the Decent Homes programme and reform the Housing Revenue Account.
- Abolish the current annual centralised subsidy system, and replace it with a locally-run system where councils can keep their rental income and use it locally to maintain homes for current and future tenants.
- The HCA will absorb economic regulatory functions from the TSA - will generate savings and economies of scale.
- Consumer protection in housing: tenants will now be able to hold landlords to account with the help of their local MPs and councillors and through panels that they set up and control themselves.

Protecting the Vulnerable

- Homelessness grant protected at £400 million
- Reductions to SP "minimized" with £6.5bn investment secured for next four years.
- Protected capital funding for DFGs. Local Authorities will have more control over how this money is allocated.

Thoughts for Cambridgeshire

We feel that these announcements will have a serious effect on our ability to build affordable homes and therefore balanced communities in the future, which are needed to meet housing need and to provide labour to support local economies. This is particularly important across Cambridgeshire – in areas of growth, where land values are very high and where there is intense pressure on housing.

This affects our supply of affordable homes, our partners in the construction industry, and plans for new homes whether on larger growth sites or smaller rural developments. All equally important for residents, people moving in for jobs, and for our economy. In Cambridgeshire there is an enormous difference between average housing association (social) rents and lower quartile private rents (2008 levels).

Table 8: Difference between social rent and 80% of lower quartile

	Social rent and 80% of lower quartile market rent					Social rent and 80% of average market rent				
	1 bed	2 bed	3 bed	4 bed	All	1 bed	2 bed	3 bed	4 bed	All
Difference (£)										
Cambridge City	£262	£273	£334	£570	£274	£326	£386	£483	£666	£453
East Cambridgeshire	£34	£110	£138	£277	£102	£100	£150	£182	£385	£194
Fenland	£34	£84	£150	£186	£69	£61	£107	£182	£297	£133
Huntingdonshire	£71	£94	£134	£250	£75	£91	£144	£198	£397	£182
South Cambridgeshire	£156	£190	£240	£350	£243	£187	£224	£292	£544	£371
Forest Heath	£54	£112	£178	£299	£130	£99	£224	£324	£497	£328
St Edmundsbury	£111	£140	£189	£213	£136	£149	£178	£294	£372	£252
Difference (%)										
Cambridge City	96%	83%	88%	133%	84%	119%	117%	126%	155%	139%
East Cambridgeshire	12%	33%	38%	69%	30%	35%	45%	50%	96%	57%
Fenland	13%	29%	48%	55%	24%	24%	37%	58%	88%	46%
Huntingdonshire	26%	30%	39%	64%	23%	34%	46%	57%	102%	57%
South Cambridgeshire	55%	57%	67%	85%	78%	66%	67%	81%	133%	119%
Forest Heath	20%	37%	52%	79%	42%	37%	73%	95%	131%	106%
St Edmundsbury	44%	47%	57%	59%	45%	59%	59%	89%	103%	83%

CCCRG and Dataspring

This demonstrates the significant impact on tenants, if social rent levels are to move in line with even 80% of market rates. Alongside the suggestion of an overall cap on benefits, this could make the homes completely unaffordable, as a cash limit on the amount of housing support has been suggested. Incomes are surely not set to rise enough to make this possible, especially given overall economic outlook and public sector job losses. Acts as a disincentive to moving house, even if a new job beckons will have to be a big increase in pay to make the rent increase worthwhile.

It is anticipated that the result of these announcements in Cambridgeshire will certainly be increased hardship, and potential increased housing need and homelessness in a relatively short period.

Conclusion

The CSR promises change on an unprecedented level for Cambridgeshire, and indeed the whole country. Much of the detail remains to be clarified, and there are certainly areas of opportunity which Cambridgeshire can explore and develop in the coming months.