



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyfrifon Cyhoeddus **The Public Accounts Committee**

Dydd Mawrth, 17 Ionawr 2012
Tuesday, 17 January 2012

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol**Committee members in attendance**

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol**Others in attendance**

Mathew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**National Assembly for Wales officials in attendance**

Dan Collier	Dirprwy Glerc Deputy Clerk
Tom Jackson	Clerc Clerk

Dechreuodd y cyfarfod am 9.14 a.m.

The meeting began at 9.14 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introductions, Apologies and Substitutions

[1] **Darren Millar:** Good morning, everybody, and welcome to the first meeting of the Public Accounts Committee of 2012. Everybody should be aware that the Assembly is a bilingual institution and that Members and witnesses should feel free to contribute to this meeting in Welsh or in English. Headsets are available for anybody who wishes to use them for translation or amplification purposes.

[2] I encourage everyone at the table and anyone who may be in the public gallery to switch off their mobile phones, pagers and BlackBerrys, as they can interfere with the broadcasting and other equipment. On a housekeeping note, should the fire alarm go off, I ask that everyone follow the instructions of the ushers. No apologies have been received at this time. It is great to see that everybody is here and that they should be present for the whole meeting.

[3] I welcome Tom Jackson to the committee. He is taking over as the clerk to the

committee. I thank Alun Davidson for stepping in as clerk during the temporary arrangements before Christmas. I will also make a formal note of thanks to Andrew R.T. Davies, who chaired the meetings in the run-up to Christmas in my absence. It is good to be back in the saddle, and I am pleased that someone else with a beard is on the committee so that I do not feel persecuted in anyway as a result of my whiskers. [*Laughter.*]

9.15 a.m.

**Gwybodaeth gan Archwilydd Cyffredinol Cymru am Adroddiad Swyddfa
Archwilio Cymru ar y Cynnydd o ran Cyrraedd Safon Ansawdd Tai Cymru
Briefing from the Auditor General for Wales on the Wales Audit Office
report on Progress in Delivering the Welsh Housing Quality Standard**

[4] **Darren Millar:** We will now move on to item 2 and receive a briefing from the Auditor General for Wales on the Wales Audit Office report on progress in delivering the Welsh housing quality standard, which was published last week. Members will have seen that the report notes improvements in the quality of social housing across the country, but there are some shortcomings in terms of the Welsh Government being able to hit its target for the Welsh housing quality standard to apply to all social housing in Wales by the end of 2012.

[5] I am delighted to welcome the Auditor General for Wales, Huw Vaughan Thomas, and Mathew Mortlock, the performance specialist at the Wales Audit Office. I invite you both to take us through your report.

[6] **Mr Thomas:** The Welsh housing quality standard was established in 2002 with a target that all social housing should meet the standard by the end of 2012, which is a period of 10 years. The standard embraces both the fabric of the house and the surrounding environment. There is also an expectation that rented housing should be well managed. It is important to note that the minimum requirements of the Welsh housing quality standard are more challenging than the similar standards established for social housing in the rest of the UK.

[7] This report looks at the past 10 years and considers the arrangements the Welsh Government and social housing landlords have put in place to support and monitor progress. We have also looked ahead and considered landlord objections to future compliance and related investment plans. We note that landlords anticipate spending around £2.5 billion on major repairs and planned maintenance work between April 2011 and March 2017.

[8] The overall conclusion I reach is that many tenants have seen substantial improvements in the quality of their housing, but that the original aim that all social housing would achieve the standard by 2012 will not be met. I consider that the Welsh Government has not acted swiftly enough to support and monitor progress, and has not put an effective framework in place to demonstrate value for money from its significant investment in work to achieve the Welsh housing quality standard. In terms of data, we draw on those provided by landlords to the Welsh Government in 2010, which indicated that 26% of social housing, about 57,000 homes, met the standard in full by 31 March 2010. The landlords projected that 60% of all homes would comply with the standard by 31 March 2013, and that 79% would comply by 31 March 2017. However, several landlords have reported recently that they now expect to achieve full compliance sooner than previously expected.

[9] As the report indicates, it is unclear whether the original deadline was ever realistic, and whether the Welsh Government had the information necessary to be able to quantify the extent, or the likely costs, of the improvements needed to meet the standard when it set the 2012 target for achievement. It also highlights other weaknesses in the Welsh Government's

leadership and monitoring, with progress towards the standard being effected by slower than expected development of landlord work plans and, in particular, timescales for local authority stock transfer. While the report does not examine the way in which the individual stock transfer process has been managed within local government, the report makes clear that the 11 large-scale local authority stock transfers completed to date have required financial support amounting to £476 million. The most significant costs, of about £430 million, are being met directly by HM Treasury in order to clear local authorities' overhanging housing-related debts.

[10] A key question that arises from the report is what needs to be done to support improvement in those areas where, within the current policy and financial framework, local authority landlords are unable to protect clients with this standard in any reasonable timescale. That causes a particular issue for some of those local authorities where tenants have rejected stock transfer or are yet to vote.

[11] My report calls on the Welsh Government to make clear its expectations of landlords that are unable to achieve full compliance within a reasonable timescale, and to explore the full range of policy options available to help overcome the barriers to achievement of the standard. It also calls on the Welsh Government to clarify whether it intends to introduce any changes to the minimum requirements of the standard.

[12] While not a focus of the report, there is also the question of how the Welsh Government intends to address issues concerning the condition of owner-occupied and private rented housing, which represent the majority of households in Wales. The issue is recognised under the Welsh Government's current consultation in the document 'Meeting the Housing Challenge: Building a consensus for action', which is intended to contribute to the early stages of work towards a new housing Bill.

[13] While the Welsh Government indicated at the outset that the standard had been introduced for all housing in Wales as far as the fiscal condition is concerned, the 'Improving Lives and Communities—Homes in Wales' document states that the standard does not apply to the private sector, although I would argue that the need for improvement is similar. On that note, I will ask Mathew to give you a few more details from the report, and to suggest possible lines for your inquiry.

[14] **Mr Mortlock:** With regard to part 1 of the report, without repeating all the compliance data in there, I want to reinforce some points of interpretation around the data that we presented based on the Welsh Government's work and its monitoring exercise. You can also see the differences that we tease out within the report between different groups of landlords, namely between local authorities and housing associations, but also within those two groups of landlords. In broad terms, those reflect some of the historical differences in the age and condition of housing stock, or, for those associations created through stock transfer, the housing stock that they inherited at the point of transfer.

[15] The report makes clear some of the concerns that we have about the quality of the information on which the WHQS compliance data are based. The monitoring exercise in 2010 was the first of its kind. Some landlords had greater difficulty than others in providing the information requested by the Welsh Government. As we went through the clearance process on the report, some of those concerns were reinforced by further feedback we had from landlords at that time.

[16] The report is based on measuring whole-house compliance with the standard, that is the percentage of homes that meet the standard in full. That is the measure that the Welsh Government used and reported on earlier in 2011 as well. That does not tell the whole story in terms of the volume of work that has been undertaken by landlords to improve their homes, or

the amount of work still required to take homes from non-compliance to full compliance.

[17] I also wish to reinforce this concept that comes out of part 1 of an acceptable fail. This was introduced in the revised guidance in 2008. As we have set out, failure to meet various criteria can now be classed as ‘acceptable’, if you like—these are homes that do not technically meet certain requirements of the standards, but, in the Welsh Government’s view, there are acceptable reasons as to why that is the case. One of the issues is that we do not know from the data available at the moment the extent to which those criteria have been applied—that is, we do not know how many of the homes shown as compliant in full actually qualified as acceptable fails, even though improvements may not have been made. We could perhaps explore that in more detail.

[18] As Huw said, several landlords recently reported changing projections for the future, generally indicating that they expect to achieve full compliance sooner than expected, rather than the other way around. Some of the stated reasons for that include reinvestment decisions or changing investment decisions for the future. In some cases, the reason was improved stock condition data since the Welsh Government collated this information on which it is basing its projections. In some cases, where landlords have looked again at applying the criteria for acceptable fails, some of what they are projecting as improvement might not relate to real improvements on the ground in that respect. You may wish to explore with the Welsh Government in more detail how it plans to take forward our recommendations about the future monitoring of data quality, how it intends to have better data going forward and, perhaps, why we are still having a debate about data quality, essentially towards the end of the programme rather than earlier in its life.

[19] Moving on to part 2 of the report, which teases out some of the issues to do with leadership, monitoring and general oversight of the policy, we talk about a number of areas. One area is to do with the guidance itself: there is an issue in the report that talks about the lack of clarity at the outset, perhaps in relation to the detailed requirements and concerns about consistency and interpretation of the original guidance. I have already said that the revised guidance came out in 2008, but that was some four years after the concerns were first raised. More pertinently, when it came out in 2008, the Welsh Government had already set out that landlords should develop their business plans for achieving the standard. Logic dictates that, in an ideal world, your guidance would not come out after the point at which you set out what landlords are expected to do to achieve the standard. There is an obvious chronology gap with regard to how that has been worked out.

[20] To reinforce some of the other points that Huw talked about, on the £2.5 billion investment going forward, one issue that we found when looking at future and historic spend with regard to achieving the standard is that no definitive figure is available. In terms of saying what would have been spent anyway on housing repairs and planned maintenance by landlords regardless of the standards, while we can quote various figures based on information available of what has been spent, that is not necessarily to the credit of the standard itself as a policy implement, because, obviously, some of that money would have been spent anyway. Certainly, the figure of £1.6 million, which the Welsh Government has quoted on various occasions and which is set out in ‘Improving Lives and Communities—Homes in Wales’ is, essentially, a partial reflection, as we say in the report, of the money that has been spent. It relates to a particular period of time over the last 10 years and it does not have the evidence base for the figure. We do not believe it covers all landlords; it focuses on the local authorities and the stock transfer organisations. These are just some of the points to reflect on in the report.

[21] On stock transfer, Huw has already said that we do not look at the process itself. The bulk of the minimum of £476 million that we quote for financial support comes from the Treasury, but it also contains costs relating to the preparation for stock transfer, preparation

for the ballots and subsequent activity that must take place between successful ballots and the transfer of its stock. At least £46 million has been spent on the 11 transfers to date in those processes, which is no small sum.

[22] From the outset, the Welsh Government has emphasised the wider benefits that should flow from the investment in achieving the WHQS. It established a project in 2006 called i2i, informed to involve. That project is now managed by the Chartered Institute of Housing Cymru. That has been the focus for much of the Welsh Government's activity on an arms-length basis through the project to promote these benefits and the various work, research and guidance around it, which is good. Some of the rhetoric to do with this is positive. The issue that we tease out in the report is that, essentially, there is no real framework in place to measure the benefits and to ask what has been achieved so that landlords can provide examples and you can even have case-study material, as we have set out in some of the appendices to the report, on what has been achieved as an off-shoot from the work that has been delivered. In our view, a lot more could have been done at an earlier stage to say what the Welsh Government wants to set out to measure and how it wants landlords to collect data to provide evidence for the wider benefits to show the full value for money from the investment that they are making.

9.30 a.m.

[23] To finish, I will go back to the question of homes that will not achieve the standard within a reasonable timescale, at least not on current projections. As Huw said, with regard to the position reported in 2010, 46,000 homes were not expected to meet the standard in full by 31 March 2017. Almost all of those are in the five local authority areas where tenants had already rejected transfer or the two areas that are awaiting ballots in the near future. There have been some developments over time in relation to some of those councils. In the Vale of Glamorgan Council, tenants rejected stock transfer earlier in 2011. However, as we understand it, the council has recently brought forward a business plan that projects compliance with the standard by 2017. That raises some questions of its own. In Caerphilly, the council has now identified a business plan that would enable it to achieve compliance by around 2020. However, it is still obviously preparing for a tenant ballot as well. I believe that the plan is that, in the event of tenants voting in favour of stock transfer, the new housing association would achieve compliance by around 2017 to 2018, which would mean compliance a bit earlier. However, the council itself has remodelled its assumptions in the event that tenants vote against transfer.

[24] On other areas, including Wrexham and Swansea, we are not saying in the report that these councils are not investing in improving their stock and maintaining areas of their housing. However, we are saying that, with regard to projecting full compliance with the standard, they are a long way off and, in some cases, unable to really identify when—if indeed it is at all possible within their current financial framework—they might achieve it. Obviously, in Flintshire, where they are preparing for a tenant ballot, a great deal will depend on the outcome of that process. There are various uncertainties with regard to the projections in the report. There are various uncertainties with regard to the data quality of what has been reported to date, but the picture is as we see it, as far as we can tell.

[25] **Darren Millar:** Thank you for those comprehensive remarks. Before I take questions from Members, one of the astonishing findings in the report was that the Welsh Government seems to have set out what was a very ambitious and laudable target to hit this new housing quality standard by 2012, embarking on this mission in 2002, without any baseline evidence at all. What was its response to this finding in your report? What sort of discussion took place behind closed doors between you and the Welsh Government when you said that you wanted to flag this up as an issue?

[26] **Mr Mortlock:** As I say, we have not had a great deal of dispute about the facts as we have presented them. We have gone through the clearance process for the report, and that has not been a point that particularly engendered a discussion between us and the Welsh Government. It was pretty clear that, at that time, there was no robust assessment made when set against the standard itself. There were some historic stock condition survey data from the late 1990s, which gave a picture of disrepair in local authority settings in particular. However, with regard to being able to say, ‘We want to set up this standard; this is where we think we are currently against that standard and therefore we have to do X, Y and Z to arrive at full compliance over the next 10 years’ or whatever period was determined, there was not that sort of robust assessment.

[27] Some work was done shortly after the guidance and the deadline were introduced, particularly with local authorities to get them to assess in general terms the scale of the financial challenge. However, at the time, although I would not say that it was just a case of putting a finger in the air, even those local authorities were making their best estimates based on whatever information they had on their stock at the time. They themselves were not in a position to say definitively where they were against the requirements of the standard.

[28] **Mr Thomas:** I would see it more as an aspirational target that was set in 2002, along with one or two other strategies where I have taken stock of the various ranges of policies in Wales. It is as though a date and a direction of travel were set. We are pointing out that those aspirational targets, including this target—and I am not challenging the need for those targets—were set on the basis of some very weak data.

[29] **Leanne Wood:** This is not a new problem. We can look right across different policy areas and find examples of where baselines were not put into place at the beginning of programmes. However, it is too late to do that now, is it not? We cannot put those baselines in retrospectively, so the focus now needs to be on what needs to happen from a Government perspective to bring those homes up to the standard, because people should not be living in below-quality-standard homes.

[30] Chair, it is also worth our looking at what needs to take place in the private rented and private owned sectors to bring those homes up to standard as well, because they have been left out of this equation, as you pointed out in your opening remarks. When we look at this, it would also be worth our looking, as a committee, at the differences between those authorities that transferred their stock and those that did not, because there is not a level playing field. Those tenants who voted against this transfer are at a distinct disadvantage compared with those tenants who voted in favour of it. So, it is not a real choice for tenants in that sense. There may, therefore, be recommendations that we as a committee might want to make to the Government on how it can support those councils, such as Wrexham and others, whose tenants voted against the transfer.

[31] **Darren Millar:** There are all sorts of questions for the Welsh Government and, perhaps, local authorities with regard to how they intend to meet their ambitions. I would like to touch on the issue Leanne raised. You mentioned the housing Bill coming forward to deal with some of the private sector issues, but what is the timeline for that? Has the Welsh Government given you any clear information on that?

[32] **Mr Mortlock:** I must confess that I am not clear on the timeline for that. That information is best sought directly from the Welsh Government.

[33] **Mohammad Asghar:** Huw, you mentioned in your statement the weakness in the leadership of the Welsh Government—and that is the word you used. Does this relate only to housing? Between 2002 and 2012, were these weaknesses in local government or at the national level? The housing stock still has not achieved the standard and the target has not

been met. So, where is the weakness; is it at the local level or the national level? The policy was set out 10 years ago, but the standard has not been achieved. Where have things gone wrong? Why was this not detected within two or three years, instead of it being revealed 10 years on that the target has not been achieved?

[34] **Mr Mortlock:** This is a debate that we have perhaps had during the drafting of the report, in that we asked whether we were talking about weaknesses that existed at the start, the middle, or the end of the process. We have concluded that there are areas we think could have been improved in terms of the Welsh Government's leadership throughout the process. As I have said, it is good that we have reached the point where we are collecting some data and trying to assess the current position, but it is not good enough that that was being done in 2010, towards the end of the process.

[35] As we have said in the report, from our perspective, there are some issues relating to the housing association side in relation to the hiatus in inspection and development of a new regulatory framework. There has not, perhaps, been the same focus since about 2008 and the Essex review of affordable housing. There are perhaps some issues with regard to the Welsh Government's oversight from a regulatory perspective of those landlords as well, again towards the second half of the process.

[36] If you look back over the past 10 years, it is clear that, at various points, there has been research on various aspects relating to WHQS. There have been indicators of issues with progress. Some of our own work in the area of local government and housing association inspection work has pointed to issues with the quality of the data and what landlords are doing in terms of the position on their work plans to achieve the standard. The issue is the way in which the Welsh Government has reacted to that evidence and how it has stepped in and intervened. The general picture that we are presenting is that it has not done that as effectively as it could have.

[37] On the landlords' side—and this was certainly true early on for local government, and it is true for all landlords—there are issues of clarity regarding what is expected. So, until there was clarity about what was expected within the standard and landlords knew what they had to do and whether the improvements had to be made to all homes, regardless of how much it cost, or whether there were acceptable failure scenarios where it could be argued that it was not reasonable or cost-effective to do so, there was perhaps an impact on landlords' certainty about setting out their plans for the future. The stock transfer issue has also been quite sensitive politically at the local level, and there have been issues regarding a commitment to drive that agenda forward and the time taken to develop the arguments locally and win the political support in the first instance before going to pursue ballots.

[38] So, all of that really has lengthened the time frame from our perspective. It has meant that the first five-year period when the Welsh Government's expectation was that the plans would be developed and we would be working out exactly what we needed to do to achieve this standard over the second five years of the period—working out our investment plans and our work plans, for example—has lengthened. So, we are now looking at a stage where people are putting plans in place later than they would ideally have done.

[39] **Julie Morgan:** Leanne made the point that where you live as a tenant seems to determine the quality of the house you live in. Did the Welsh Government make enough preparation for the fact that there could be a vote against stock transfer and that some tenants were keen to stay with the local authority—understandably so—and were balancing that against improvements they may get? Was enough work done on those issues?

[40] **Mr Mortlock:** Implicitly, the recommendation that Huw pointed to regarding looking forward and urging the Welsh Government to look afresh at all policy options in terms of

supporting compliance in all areas, essentially pushes for the playing field to be opened out a bit in relation to the options available. What is clear to me, looking back—and, again, we say this in the report—is that, where local authority landlords had identified that they did not feel they could fund achievement of the WHQS within their existing resources, financial frameworks and systems, they were essentially left with little option than stock transfer, in terms of the plan B in that event. There was not really a plan C or a plan D. So, inevitably, where tenants have said ‘No’, for whatever reason—whatever the concerns are that have driven that—there has not been another plan to revert to.

[41] As we say in the report, there are circumstances that could support the argument for re-balloting. People could look towards that if they wanted to, and there are other uncertainties around things such as housing revenue account and rent review policy. These are all things that affect the balance sheet in terms of income, expenditure and how affordable achieving the WHQS is. As I said, what is perhaps not clear is whether, in all cases, local authorities themselves have exhausted all options, including their investment options, before going to the point of stock transfer. In some of the cases we point to in the report, plans are now emerging. There are some plan Bs at a local level within the existing financial framework that have been articulated only more recently. So, there are some questions arising from those examples as well.

[42] **Darren Millar:** What has given rise to the delay of some local authorities in coming up with their plan Bs? You would have thought that a local authority would have said ‘Ok. How are we going to achieve this?’ way back in 2002, when the announcement was made. Yes, there could have been more clarity, but does it put a finger in the air and ask, ‘How much, roughly, is this going to cost us to achieve?’ and ‘What are our finances like in terms of being able to meet this?’ and then make a decision as to whether they need to go to a ballot to address that financial need or meet it in some other way? I think you mentioned Caerphilly earlier. Why is it, for example, only now coming up with its plan B, ten years on?

[43] **Mr Mortlock:** That might be a question you want to direct to the council itself. That plan emerged only very late in our process, as we were finalising the draft report.

[44] **Darren Millar:** It is astonishing, is it not?

[45] **Mr Mortlock:** To me, it was only then that it became clear that the new business plan had emerged. What I would say is that some of the plans, even for local authorities that opted very early on to retain their stock, have been based on decisions around prudential borrowing. Obviously, there are certain risks and concerns associated with that as well. In the broader sense, it comes back to priorities for local government, in terms of throwing their hat in the ring and committing to borrowing to support housing. I suppose the borrowing could be used to support other areas of activity. I would not pretend to know the ins and outs of the detailed decisions that have taken place over the past ten years, but there are questions for the committee to explore in relation to why the playing field has changed in some councils of late. Essentially, some will have been or may have been forced into that decision by the tenant vote itself, which may have effectively pushed them towards looking afresh at their options.

[46] **Mr Thomas:** You also have to remember the different economic climate in which the initial plans were developed in the early 2000s and the state of things now. Also, perhaps there was too ready an assumption by some that, ‘Oh, fine; we’ll go to stock transfer’, without adequate explanation and, as Mathew has indicated, without exploration of other options. As time drifted, it became more and more difficult to see how we would achieve the standard in a particular time, and that goes back to the kind of active monitoring that the Welsh Government policy branches were carrying out as regards this particular policy.

9.45 a.m.

[47] **Leanne Wood:** May I ask a question on this?

[48] **Darren Millar:** Yes, if it is related to this. Then I want to bring Gwyn in.

[49] **Leanne Wood:** Yes, it is about the relation to the economic crisis. Has it been more difficult for either housing associations or local authorities to borrow since 2008? Has that had an impact on this at all, or is their borrowing different to business borrowing, which is difficult at the moment?

[50] **Mr Mortlock:** There are challenges for borrowing. In the report, we also point to the fact that some have benefitted from reductions in interest rates on some of their previous borrowing, so to an extent there has been a windfall for some landlords from the economic climate. At the same time, for some, there have been some concerns about borrowing and accessing funding. Going forward, as I said, there are a number of uncertainties, including the rent review policy, underpinning the business plans of landlords. The extent to which those are significant concerns at the moment varies—some are more concerned than others—but that is why, in essence, we are talking about projections of future compliance and future investment. There are some significant uncertainties, as there are with all business plans.

[51] **Gwyn R. Price:** Perhaps I had better start off by saying that I was deputy leader of Caerphilly County Borough Council for a while, and we have improved Caerphilly over the past 10 years. However, anyone in local government would agree that it is not a level playing field, and it has not been; it has been one-sided. As you know, the finances were not available to some of the authorities, and now, late in proceedings, Caerphilly is going out to ballot—this week, in fact. I do not know what the result will be, but at least they will have something to put in front of the tenants for them to look at. That is the Caerphilly situation. It was improving, so that is one of the reasons.

[52] However, my question is this: are you confident that landlords' projection that 60% of homes will meet the Welsh housing quality standard by 2013 will prove to be accurate?

[53] **Mr Mortlock:** On the basis of what landlords have reported to the Welsh Government over the past few months, I would be broadly confident, without tying my colours too closely to the mast. As we have said, some have reported that they are expecting to comply sooner than expected, both in terms of the 2013 and 2017 dates in our report. So, the information provided to the Welsh Government suggests that they are further ahead. I will just reinforce the point that I made: in some cases, that may be because they have looked again at these acceptable fail criteria and they are applying those in certain circumstances, so that some homes have moved from non-compliance to compliance.

[54] As we said in the report, we are not convinced—we do not have any great assurance—that landlords are interpreting those acceptable fail criteria consistently, and one of the steps that the Welsh Government could take in future monitoring is to ensure that they are. Going back to the issue of a level playing field, it would be helpful to ensure that all landlords are treating those criteria in the same way and that it is not the case that some are getting out of their responsibilities, if you like, simply by way of their interpretation of those criteria. The Welsh Government could challenge landlords more clearly on, first, how they are interpreting those criteria, and, secondly, the extent to which they have applied those criteria in measuring compliance.

[55] Going forward, we would also look to the Welsh Government to publish more information or to look at different ways of measuring compliance to demonstrate where landlords are in terms of how much work they still have to do to achieve compliance. That may mean publishing detailed information for different landlords on the key elements—

showing how many bathroom and kitchens comply with the standard—to look beyond just the whole-house compliance figures in order to provide a more rounded picture of the position of individual landlords.

[56] **Darren Millar:** On the issue of acceptable failure, to what extent will this contribute to the 60%? Do you have any basis for that evidence?

[57] **Mr Mortlock:** We do not know, Chair. The reports teases out examples, such as a case study from Cardiff that talks about the extent to which it has been applied there. That is not meant in negative terms; we see it as a good thing that it is at least in a position to identify some clear data on the way in which it applied those criteria. However, in the last monitoring exercise, across the piece, there was very mixed and patchy information about those criteria. So, we just do not know about that at the moment.

[58] **Darren Millar:** I will bring in Aled, then Jenny, and then Mike.

[59] **Aled Roberts:** There is a basic lesson here that the problem was that there was little political appetite in local government for stock transfer, and that was present within the governing party's local government base. It is all very well announcing a policy, but if there is no real appetite for it there is a weakness in the policy straight away. It is important for the committee to hear evidence from one of the authorities in which the tenants voted against stock transfer. In Wrexham, for example, we now have the lowest housing management costs in Wales. Record levels of investment have been made in the housing stock. That, in itself, creates problems, because it acts as a disincentive for a re-ballot. Where tenant satisfaction rates are increasing year on year, the reality is that there is no prospect of delivering plan B. So, it would be interesting to consider where we go from there, bearing in mind what Leanne has said regarding those tenants in the situation where, due to their own democratic decision, they stuck with the local authority rather than getting a new kitchen.

[60] It is also important that we take evidence from some of the housing associations, because there are some issues with regard to convergence policy on rents. It would be quite interesting because, in those areas where there has been a vote against stock transfer, you could be looking at situations where local authority rents are historically low and housing association rents are historically high. That is because of deliberate policy at a Government level, which no-one can really explain. So, it is important to consider that.

[61] Thirdly, we need to look at the matter of housing revenue accounts and the decision that was made in 2001 by the Welsh Government. The implications for a change to the regime or the cost to Wales need to be considered because, from my experience, from memory, we were spending around £13 million or £14 million in Wrexham on capital investments. We were also sending about £11 million or £12 million back to the Treasury because we had the highest rebate payment. So, we could be looking at a situation where even that record investment could be double what it was if we were under a different housing revenue regime.

[62] I could not get my head around some of the issues involved, to be honest. It has been said that there were probably two people in Wales who understood the whole thing. However, there are inherent weaknesses in the system and, at the moment, we are tinkering around the edges. My view is that we have at least one other relatively large social landlord not delivering the standard and we will probably be in a situation where at least three local authorities will say that they will not be able to deliver the standard themselves, and yet the tenants have still voted to stay with the authority.

[63] **Darren Millar:** Do you want to pick up on the point that Aled made about the political will of some local authorities to pursue the standard, given that some of them may have been predisposed, if you like, to not wanting stock transfer? Is that an issue you

uncovered during the course of your inquiry?

[64] **Mr Thomas:** It goes back to the early decision regarding how the standard was to be achieved in Wales. The report points out that other options were open to authorities in England, such as arm's-length organisations, the private finance initiative and so on. Those options were ruled out here. The only option that was a runner in Wales was the stock transfer option. There was a debate at the beginning regarding local authority preferences; the arm's length option was the preferred option of a number of local authorities. That was ruled out, and stock transfer entered the equation. As Aled indicated, there were political issues at local authorities that ruled that out as an option. We then asked questions about how one finances improvements, yet retains homes within local authority control.

[65] **Darren Millar:** In terms of the housing revenue account issue and the cash that goes back to the Treasury on an annual basis, what sort of sums were you able to identify that could have been reinvested back into the housing stock in Wales?

[66] **Mr Mortlock:** Aled referred to the two people in Wales who understand all of this; I am certainly not one of them, I am sad to say. [*Laughter.*] We quote some of the Minister's statements in 2011 in the appendix, which give a figure of around £73 million a year going back to the Treasury as part of this system. We have not explored the ongoing detailed negotiations in terms of potential reform of this area, but as we point out in the appendix, the UK Government is introducing a new system of council finance in England. So, there will be a question of Wales standing alone with regard to the current system. From my perspective, the current position is that further reforms and changes are being discussed, and the Minister's statements in mid-2011 seem to cast some doubt on the extent to which the perceived benefits of change in the system would be felt, namely to what extent there is a windfall here in terms of an alternative option. The perception has been that there would be a windfall if we reform the system, but there is a lack of clarity on what the outcome of reform would be in financial terms. The committee could rightly explore these issues with the Welsh Government.

[67] **Jenny Rathbone:** I do not think that pursuing the question of 'Why were arm's-length organisations not an option in Wales?' is a particularly useful path to go down, because I have seen no particular evidence that ALOs produce the goods for tenants any better than stock transfers or being a council tenant. As you can see from the list that you give at the end, what actually produces the goods for tenants is good leadership, because housing associations vary, and so on. The fundamental problem is that, in the commercial world, the tenant pays the rent and the landlord is expected to maintain the property to a good standard, and if he is a private landlord, any surplus is his profit. However, there should be an expectation on social landlords that tenants pay their rent and the landlord uses that money to maintain the properties to a decent standard.

[68] The problem is that the housing revenue account has always been used by the Treasury as a cash cow to finance other things all together; the poor have been subsidising the poorest. Once again, the Government is telling us that if we do not encourage more local authorities to transfer their stock, millions of pounds will go back to the UK Treasury. That is a fundamental unfairness that we need to start shouting about. However, because it seems that only two people in Wales know how the housing revenue account works, it is no wonder that the tenant does not understand it. As someone who represents a Cardiff constituency, I know that local people have as many complaints about the repairs that are or are not being done by their landlord whether they are in a housing association property or in a council property. I do not think that having a different management structure changes it—what changes it is whether or not landlords have good leadership and management.

[69] From my point of view, what is missing from your paper is any detail about where stock was transferred, and what financial arrangements were made by X, Y and Z housing

associations to meet the housing quality standard that were not open to the local authority.

10.00 a.m.

[70] That is the clarity that has never really been put on the table. All sorts of fudges were given as to why tenants ought to be encouraged to vote in favour of stock transfer because that was the zeitgeist of the last 10 years and more coming from Westminster. Now is a good time to have a fundamental review of how tenants can get a good deal, particularly with house prices skyrocketing well out of the reach of most people on average earnings. We must have a decent deal for people who rent properties. I would like some clear evidence as to how the housing revenue account works, and why it is not possible to invest the rent money in improving people's kitchens, bathrooms and energy efficiency. Why is that not possible?

[71] **Mr Thomas:** These are fair questions that you need to put to the Welsh Government. Our focus was: here is the standard that the Welsh Government has set as the requirement for houses to reach by 2012. How far has it been reached? We have identified shortcomings. If there were issues to do with the housing revenue account that could have impacted on that, we would expect more work to be done by the Welsh Government arguing the case, and so on. It would certainly be useful for the committee to enquire as to where we are heading, particularly given that new models are emerging in England; what will be the match for those models in Wales? These are definitely questions for the Welsh Government.

[72] **Darren Millar:** Jenny, you also asked what the big incentive is for the stock transfer; it is the writing off by HM Treasury of the huge, overhanging debt payments, which is not available to local authorities if they retain their stock. That is why the whole machinery, as it were, lends itself to large-scale stock transfers. There is an interesting table showing the debts that have been written off by HM Treasury on page 46 of the report.

[73] **Jenny Rathbone:** That is fine, but it is an entirely political decision. The money could have been used instead to invest in other quality standards.

[74] **Darren Millar:** Of course, but the only way to access that, as it stands and as it has stood for the duration of the period of the targets, was if the stock was transferred. The money was simply not available to be given to local authorities any other way.

[75] **Jenny Rathbone:** I appreciate that, but we have to look afresh. We are in a completely different economic environment now to the one that we were in before.

[76] **Darren Millar:** You have made certain points about the housing revenue account and the need for the committee to be able to understand this. You are right: we need to take evidence on that, and how it works going forward, particularly in light of the situation—I was not aware that about £11 million a year goes back to the Treasury from Wrexham alone; it seems an astonishing figure. Perhaps that could be used to bring the criteria up to standard.

[77] **Aled Roberts:** We cried every year. [*Laughter.*]

[78] **Jenny Rathbone:** Why could you not use it on improving people's—

[79] **Darren Millar:** I am sorry, Jenny; Aled is not here to give evidence today. Perhaps he could be on the other side of the table during the evidence.

[80] **Aled Roberts:** We would have if we could, Jenny.

[81] **Mike Hedges:** I have two points. First, how robust are the data on the extent to which criterion six is being met? That is the need for homes to be 'located in attractive and safe

environments'. Secondly, you talk about this as if it continues to go up every year. At what stage do houses need new kitchens and bathrooms? If the kitchen and bathroom in a house were up-to-date 10 years ago, when do they stop being up-to-date? Do they have to be replaced? What finance is available to replace them? I assume that, if someone had a new bathroom in 1999 or 2000, that would have been regarded as up-to-date when the survey was conducted, but I would guess that, by 2013, most people would probably consider it not to be up-to-date. So, at what stage do they stop being up-to-date? People have a windfall of money, if they choose stock transfer, in order to update everything, but what happens afterwards? In 20 years' time, when they have not updated them, how do they update them again?

[82] **Mr Mortlock:** To start with the data quality, the issue with the 'attractive and safe environments' requirements of the guidance—and this was as an area where, again, there was supplementary guidance alongside the Welsh Government's technical guidance in 2008, specifically on interpreting these environmental requirements—is that the emphasis there is on tenant consultation and tenant priorities. So, there is no definitive standard, if you like, and no one thing that you can say that everyone should have; you cannot say the home environment should look like this, and incorporate these features. The emphasis is on tenant consultation, but the onus is on landlords to demonstrate that they have gone through that process, identified what they plan to do as a consequence, in line with the requirements of the standard, and then gone and done it. This area has one of the lower compliance rates among the 10 areas that we tease out in the report. You might find that landlords fairly quickly go from non-compliance to compliance on that element. What it also does is perhaps skew, to an extent, the whole-house compliance figures. If you were looking at it simply in terms of the fabric of the property itself, and how many homes would have been improved as opposed to how many homes meet all the requirements, again, we do not have that picture because of the way in which the current data were collected.

[83] In terms of maintaining the stock in the future, that was a point that I was going to reinforce. Given where we are, our report takes you only to the point of getting full compliance, or not. It does not look over the full 30 years. The business planning arrangements that the Welsh Government has established for landlords look at a 30-year cycle, and at viability and assumptions over that whole cycle. Obviously, the further you go into the future, the more sketchy things become. However, in terms of life cycles, the standard itself sets out some expectations for the renewal of certain elements of the home, unless they could be demonstrated as still being in good repair. Some of the life cycles established by the Welsh Government in respect of the standard are shorter than those that relate to the decent homes standard in England. That is one of the points around the requirements being more challenging in one respect. However, it is also an area that has given rise to some of the landlord concerns early in the process with regard to clarity about when you would have to replace things; if you could demonstrate that a bathroom was still in good repair, would it be acceptable not to replace it just because it was 15 years old? There are obvious concerns about the economic use of resources there in terms of not replacing utilities and things simply because we have gone past the window set by the standard. So, there needs to be some common sense there.

[84] There is a broader question here, which comes back to the debate we have had around the financial position. It is not just about a financial position to support full compliance with the standard over the next few years, but also about ensuring that landlords have viable business plans to support compliance over a much longer horizon. It is also about ensuring that they have got the means at their disposal to look further ahead and keep things up-to-date and renew properties, and to ensure that the investment that has taken place over recent years, and is planned for the next few years, does not come to nothing if things fall back into disrepair in 15 or 20 years' time. Obviously, that is not a scenario that we want to see.

[85] **Darren Millar:** I will bring Julie in before we wrap up and move on to the next item.

[86] **Julie Morgan:** It is a similar question to Mike's. You say that the standards were aspirational, and that they are more challenging than in the other parts of the UK. Is there any move to reassess the standards, not to bring them down in any way, but to reprioritise or to see whether, for the next stage, these have proved to be the most important standards for tenants' lives?

[87] **Mr Mortlock:** Two points arise there. One would be where landlords are indicating that they cannot achieve full compliance with the standard. Landlords are expected to take tenants' priorities into account in terms of future investment—you would hope so—but are there also particular areas where the Welsh Government could set out its expectations of landlords, as we have recommended? For example, if there was a choice between investing in a bathroom, a kitchen, or something else, what would the Welsh Government want to see? Is it going to push the fuel poverty agenda because it would prefer investment to be targeted on energy efficiency measures?

[88] As we state in the report, that is the one area that has been mooted previously, both through the Essex review and the 'Improving Lives and Communities' strategy, in terms of talking about the possible review of the minimum requirements. The discussion that we have had with officials suggests that they have no immediate plans, but it is one of the areas of uncertainty for landlords in terms of setting out their future business plans. They want to be clear whether the Welsh Government is going to introduce some new, more exacting, requirements for the future—and, if so, they would rather know that now—or is the standard fairly fixed now? They want to know what they will be working towards in future, particularly in relation to the energy efficiency and sustainability-related measures, where things have been mooted. As we have recommended, it is better that the Welsh Government clarifies whether it intends to introduce any changes in the short to medium term.

[89] **Darren Millar:** We will wrap up this session now. We will go into private session to discuss the next items.

10.11 a.m.

Cynnig Gweithdrefnol Procedural Motion

[90] **Darren Millar:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

[91] I see that the committee is in agreement.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.11 a.m.
The public part of the meeting ended at 10.11 a.m.*