

Public Accounts Committee
PAC(4) 10-13 – Paper 3



Llywodraeth Cymru
Welsh Government

Mr Darren Millar
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Public Accounts Committee
National Assembly for Wales
Ty Hywel
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11 July 2012

Dear Mr. Millar

Thank you for your letter dated 22 March 2012 raising further questions following my evidence session at the PAC meeting on 20 March 2012.

The questions and my answers below follow the same numbering in your letter.

1. **Question:** Paragraphs 2.46 to 2.49 of the Auditor General's report states that the slower than expected pace of stock transfer in some local authorities has hampered the achievement of the WHQS. The report estimates that stock transfer has required financial support from the taxpayer of £476 million to date, including the £430 million cost to the UK Treasury of writing off local authorities' housing related debts. In light of this conclusion, what assessment has the Welsh Government made of the value for money of stock transfer as a policy tool, given the Auditor General's estimate that stock transfer has required financial support from the taxpayer of £476 million cost to date?

Answer:

At the start of the pre ballot process, local authorities undertake a stock condition survey and an options appraisal which considers the feasibility and value for money of each option available. The options appraisal identifies how a local authority can reach and maintain the Welsh Housing Quality Standard. The options appraisal is considered by full Council which votes on whether to pursue the transfer option.

The options appraisal and Council decision form part of a local authority's application to Welsh Government for provisional approval to proceed to ballot.

Following a positive result in a tenant ballot, the Welsh Government undertakes a full financial, value for money appraisal of the effect of transfer and presents a business case to HM Treasury. This seeks Treasury's support to agreeing to provide debt funding (this funding is not chargeable to existing Welsh Government budgets).



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The financial effects of the proposed transfer on public expenditure are assessed with regard to its impact on the public sector borrowing requirement (PSBR). The analysis compares the PSBR cost of a local authority retaining the housing stock with the PSBR cost of transfer.

The financial appraisal is carried out on a case by case basis as the financial circumstances of individual local authorities vary considerably and 'one size does not fit all'. Careful consideration of the support required from tax payers has underpinned each decision.

2. Question: Paragraphs 2.24 to 2.28 of the report highlight that Landlords have business plans indicating that they intend to spend around £2.54 billion on work related to the WHQS between April 2011 and March 2017. However the report also finds that landlords have identified various areas of uncertainty that could affect their investment plans, for example assumptions about future income, required expenditure and organisational and contractor capacity (paragraph 2.29 and Appendix 3 of the report). How will the Welsh Government ensure that landlords actually commit to WHQS-related work the funds they have identified in their business plans (given some of the uncertainties identified in the Auditor General's report)?

Answer:

It is recognised in paragraph 2.29 of the report that not all the uncertainties identified should be regarded as significant, however the Welsh Government is supporting social landlords to mitigate risk in the following ways:

Business Planning

Local authorities submit annual business plans that relate to the ring fenced Housing Revenue Account (HRA). The business plans are subject to an annual review and the local authorities are also required to provide details of progress made against achieving WHQS.

LSVT associations are subject to a similar review process and have to demonstrate satisfactory progress in order to continue to receive Dowry Funding.

Traditional RSLs have to manage their business planning within the Welsh Government Regulatory Framework and Delivery Outcomes which applies to all housing associations registered and regulated by the Welsh Ministers under Part 1 of the Housing Act 1996. It sets out the regulatory framework that housing associations have to meet from 2 December 2011 and contains ten "Delivery outcomes" (standards of performance). The Welsh Government has described what the landlords need to do to meet the outcomes in terms of housing provision, governance and financial management.

Stock Condition Information

In order help landlords keep their business plans up to date, guidance has been issued regarding the commissioning of condition surveys of their stock at least every 5 years, or alternatively a 5-year rolling programme of surveys based on a representative sample of 20% of the stock each year.

Rent Policy

The Welsh Government has consulted upon a proposed new rent policy that would apply consistently to local authority and RSL landlords which would be fairer to tenants. Implementation of the new policy is expected by April 2013 to enable the policy proposals to be revised in light of consultation responses and any changes to the Housing Revenue Account Subsidy (HRAS) system. There are safeguards built into the new rent policy to ensure that no landlord's financial position would be untenable following implementation.

HRAS System

A review of HRAS has identified a need to negotiate a revised financial settlement on HRAS before reform in Wales can be determined and negotiations are also still continuing with HM Treasury to leave the HRAS system.

A new technical sub group, including representatives from all stock retention authorities, has been set up to develop options for reform once the outcome of HMT negotiations are known and the implications for local authorities are being looked at. An important aim of this work is to ensure that HRAS reform provides a better way forward than the continuance of the status quo.

Housing Benefit Reform

Welsh Government is also concerned about the Housing benefit (HB) rule changes and the potential impact on the future revenue flows of social landlords. Steps are being taken to mitigate the effects of these changes which would put more pressure on demand for social housing. A steering group is being set up by WG to address the issues raised by changes in HB rules.

Organisational Capacity

Although it is acknowledged that LSVT associations have complex work programmes to meet five year completion timeframes a mid year progress review which took place in September 2011 indicated that only one of the LSVT associations (Bron Afon) was reporting slippage to its programme as a result of exceptionally bad winter weather in 2010/11.

Contractor Capacity

A number of initiatives are funded by Welsh Government to provide practical support to contractors. The Supplier Development Service is an all Wales service that provides practical assistance to Welsh based SMEs in securing both public and private sector contracts. Value Wales have worked closely with suppliers to develop the Supplier Qualification Information database (SQulD) to remove the barriers that procurement can pose. I2i have developed the Can Do Toolkit to encourage purchasers to use their purchasing powers to support SMEs and enable job and training gains where procurement is used as a policy tool.

3. Question: Recommendation 4 of the Auditor General's report relates to the development of a clear framework to assess value for money (including the wider benefits achieved) from WHQS-related expenditure. The report also urges the Welsh Government to respond promptly to the recommendations of a Ministerial Task and Finish Group's March 2011 report on housing and regeneration sustainable community investment to better co-ordinate work to maximise the benefits of WHQS-related expenditure. Why hasn't the Welsh Government already made clear its plans in response to the recommendations of the Ministerial Task and Finish Group's March 2011 report on housing and regeneration sustainable community investment?

Answer:

The Welsh Government has accepted the recommendations of the Ministerial Task and Finish Group on Housing and Regeneration Sustainable Community Investment and welcomes the recommendation in the Auditor General's report that they should be taken forward. This is a complex area and we are looking to develop suitable approaches but we acknowledge the recommendations have not been addressed as quickly as we would have liked.

In the interim we have been working jointly with Value Wales to take forward the Community Benefits agenda in the housing and regeneration sectors. We have also provided continuing support for i2i this financial year and they are working to ensure awareness is raised of existing social clauses in procurement resources and to ensure social landlords are supported and encouraged to adopt good procurement practice promoted by Welsh Government.

4. Question: Paragraphs 2.68 to 2.83 of the Auditor General's report conclude that there is positive evidence of wider social, economic and environmental benefits from work to achieve the WHQS but some landlords have focused on this more strongly than others and there is no clear framework for measuring success. How does the Welsh Government intend to measure the wider benefits flowing from the projected £2.5 billion investment in WHQS-related work between April 2011 and March 2017?

Answer:

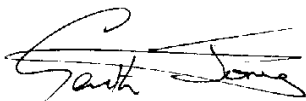
The Housing White paper has given a clear commitment to collaborative working with Value Wales to develop a clear framework for assessing value for money and ensuring the wider community benefits, including jobs and training opportunities, are embedded in public sector procurement practice.

Value Wales has developed a Community Benefits Measurement Tool which captures the value delivered in terms of workforce, training, supply chain, community activity and environmental benefits of capital investment contracts. I2i are working jointly with Value Wales to encourage the take up of the Welsh Communities Benefit Tool across all social landlords by holding joint seminars and providing bespoke advice to individual organisations. The resulting data will be brought together by Value Wales and will support the assessment of the impact of this significant investment on the economy.

The Welsh Government is continuing to work with landlords to maximise the social and economic benefits associated with housing improvement programmes and will be looking at ways of improving the promotion and capture of wider benefits from the remaining WHQS-related work. I2i are currently developing a framework to measure and monitor added value from WHQS' which sits behind the Value Wales Community Benefits Tool and will capture the wider benefits that have been achieved outside of procurement.

Please let me know if we can provide any additional information that may be of assistance to deliberations of the committee.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Gareth Jones', with a stylized flourish at the end.

Gareth Jones
Director General – Sustainable Futures.