



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion

The Record of Proceedings

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[The Public Accounts Committee](#)

13/3/2017

[Agenda'r Cyfarfod](#)
[Meeting Agenda](#)

[Trawsgrifiadau'r Pwyllgor](#)
[Committee Transcripts](#)

**Cynnwys
Contents**

- 4 Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest
- 5 Papurau i'w Nodi
Papers to Note
- 5 Sesiwn Gychwynnol: Ysgrifennydd Parhaol Llywodraeth Cymru
Introductory Session: Welsh Government Permanent Secretary
- 24 Ymchwiliad i Drefn Reoleiddio Cymdeithasau Tai: Sesiwn Dystiolaeth
12
Inquiry into Regulatory Oversight of Housing Associations: Evidence
Session 12
- 51 Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting

Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynndi yn y pwyllogor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd. Lle mae cyfranwyr wedi darparu cywiriadau i'w dystiolaeth, nodir y rheini yn y trawsgrifiad.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included. Where contributors have supplied corrections to their evidence, these are noted in the transcript.

Aelodau'r pwylgor yn bresennol Committee members in attendance

Mohammad Asghar Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Neil Hamilton Bywgraffiad Biography	UKIP Cymru UKIP Wales
Mike Hedges Bywgraffiad Biography	Llafur Labour
Rhianon Passmore Bywgraffiad Biography	Llafur Labour
Nick Ramsay Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Lee Waters Bywgraffiad Biography	Llafur Labour

Eraill yn bresennol

Others in attendance

John Howells	Cyfarwyddwr, Tai ac Adfywio, Llywodraeth Cymru Director of Housing and Regeneration, Welsh Government
Shan Morgan	Ysgrifennydd Parhaol, Llywodraeth Cymru Permanent Secretary, Welsh Government
Matthew Mortlock	Swyddfa Archwilio Cymru Wales Audit Office
David Richards	Cyfarwyddwr Llywodraethu, Llywodraeth Cymru Director of Governance, Welsh Government
Nick Selwyn	Swyddfa Archwilio Cymru Wales Audit Office

Ian Williams	Dirprwy Gyfarwyddwr, Datblygu Sector, Llywodraeth Cymru Deputy Director, Sector Development, Welsh Government
Mike Usher	Swyddfa Archwilio Cymru Wales Audit Office

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

Fay Bowen	Clerc Clerk
Jonathan Baxter	Y Gwasanaeth Ymchwil Research Service
Claire Griffiths	Dirprwy Glorc Deputy Clerk
Owen Holzinger	Y Gwasanaeth Ymchwil Research Service
Katie Wyatt	Cynghorydd Cyfreithiol Legal Adviser

Dechreuodd y cyfarfod am 13:59.
The meeting began at 13:59.

Cyflwyniad, Ymddiheuriadau, Dirprwyon a Datgan Buddiannau
Introductions, Apologies, Substitutions and Declarations of Interest

[1] **Nick Ramsay:** Can I welcome Members to this afternoon's meeting of the Public Accounts Committee? Headsets are available in the room for translation and sound amplification. Please ensure that any electronic devices are switched off or on silent mode. In the event of an emergency, please follow the directions from the ushers. We have received one apology today, from Neil McEvoy, and no substitutions. Do any Members have any declarations of registrable interests that you wish to declare? No. Okay.

**Papurau i'w Nodi
Papers to Note**

[2] **Nick Ramsay:** Item 2 on today's agenda is papers to note. First of all, turning to the minutes from the meeting held on the 6 March, are Members happy to agree the minutes? Good. And can Members also note the letter in the pack, pages 5 to 6, and note the report, pack pages 7 to 38, on senior management pay? Excellent.

**Sesiwn Gychwynnol: Ysgrifennydd Parhaol Llywodraeth Cymru
Introductory Session: Welsh Government Permanent Secretary**

[3] **Nick Ramsay:** Okay, turning to our substantive item for this afternoon, item 3, can I welcome the Permanent Secretary and your official to the meeting? Would you like to state your—it's pretty obvious from your perspective, but would you like, for our Record of Proceedings, to state your names and positions?

[4] **Ms Morgan:** I am Shan Morgan. I am the Permanent Secretary for the Welsh Government.

[5] **Mr Richards:** I am David Richards. I am the director of governance at the Welsh Government.

[6] **Nick Ramsay:** Great. Thank you for being with us today. We have a number of question areas for you, so I will kick off with the first couple of questions. If at any time I'm moving things on, it's just so we can cover as much area as possible. First of all, welcome to the committee and welcome to your role, Permanent Secretary. Can I ask you what attracted you to the role of Permanent Secretary, and what skills and experience do you bring to the post?

[7] **Ms Morgan:** For me, it seemed a job that would give me a very wide breadth of responsibility, great variety, and a job of real significance at a particularly challenging time. And it also seemed to me a job where I hope that I can bring together all the expertise and the experience that I've developed over the course of a long career in the civil service and in the diplomatic service to bear on the operation of the Welsh Government. You may know that I spent part of my career in the home civil service and part in the diplomatic civil service. I worked on labour market and social policy areas

at the beginning of my career, latterly as an ambassador to Argentina, where I particularly enjoyed engaging with the Welsh community in Patagonia, and I have a wide variety of networks across Whitehall, Brussels and also with many external stakeholders in both employer organisations and non-governmental organisations, for example. So, I obviously bring a great deal of EU expertise. I have experience of working throughout my career across a very broad range of policy areas. I hope I bring very strong leadership skills, which I think were tested very thoroughly as ambassador in Buenos Aires at a time of real tension with the Argentine Government, particularly over the thirtieth anniversary of the Falklands. I think that that was a job that required real resilience.

[8] I know I have a great deal to learn, including Welsh, and I am extremely motivated by the opportunity to learn new skills. I believe I also bring an experience of service delivery—at my embassy in Argentina, we were responsible for consular and visa services—but, of course, I recognise that, although I hope I bring relevant skills from that and other experiences, I have a great deal to learn. The issue for me in this job is the scale of the challenges, but I'm very excited about it. I know I have an excellent top team to rely on and I look forward to working very closely with the Public Accounts Committee, with the Wales Audit Office and other colleagues to make a success of what, for me, is an extremely important job.

[9] **Nick Ramsay:** You have an extremely comprehensive cv. As you've just said in the answer to that first question, you have a great deal of experience from different departments, both domestically and abroad. I think you've been in office now for one month, so bringing to the table all of your experience from across the EU and across the world, what are your first impressions of the Welsh Government and the way it operates?

[10] **Ms Morgan:** I don't think you'd be surprised that my first impressions are very positive. I've been spending quite a lot of time visiting offices of our organisation, talking to people inside the Welsh Government, to a range of Ministers as well as to Assembly Members, and to the Wales Audit Office. It is very clear to me, as I said, that I've arrived at a particularly challenging time. We have real resource constraints, we have the uncertainties of Brexit, and, of course, there are new powers flowing from the Wales Act that we need to get right. In addition to that, we have an ambitious and innovative agenda to deliver in the First Minister's programme for government, which is a real priority for me, and I'm clear I need to engage internal and external stakeholders very effectively in that. So, I've been starting with internal

stakeholders, and my impression of the officials in the Welsh Government is that there is an awful lot of talent out there, and a lot of ideas of how we can do things better, and I think it would be a real part of my job to harness the energy and talent and make sure that we are making best possible use of taxpayers' money to deliver priorities for the people of Wales. The people survey shows high levels of motivation, although some areas where we need to improve and I'll focus on those.

[11] **Nick Ramsay:** Just on that point, what are those areas that you intend to prioritise early? Have you chosen those or has the First Minister identified any areas that he'd like you to focus on?

[12] **Ms Morgan:** Well, I looked at those very carefully and I've discussed all of my priorities with the First Minister, and, obviously, my priorities are shaped very much by his priorities. I think two things stood out for me in the people survey. One is that people would welcome more opportunities for learning and development, and opportunities that were focused on helping to deliver their jobs better, and then the second thing was more senior visibility—visibility of the senior leadership in the organisation. So, I've taken that very much to heart. In fact, I've moved my office out into the open-plan area of the building, and I've also got a programme, as I said, of visits around the office. So, those are two things I'm focusing on, and, in relation to learning and development, one of my big priorities is clearly going to have to be to look at the future shape and size of the organisation and the skills that we need. So, that is a top priority for me, looking ahead.

[13] **Nick Ramsay:** Just before I bring in Mike Hedges, your predecessor identified three aspects to the role of Permanent Secretary: chief executive, accounting officer, and adviser to the First Minister. Do you agree with that assessment, and is there any one of those aspects that you think should have more focus on it than any other?

[14] **Ms Morgan:** I think it's hard to unravel them. I think there's a sort of package there of responsibilities. Clearly, my priorities are set by the First Minister. As principal accounting officer—the first priority that I've been addressing—I clearly need to address and ensure regularity, propriety and value for money in spend. That has to be a top priority for me. I would say that I have two other policy priorities, which are taking forward the First Minister's programme for government through the four cross-cutting strategies, and making a reality of those, making sure they deliver real change. As CEO, I need to make sure that I've got the right workforce with

the right skills, and, as I said earlier, that's something I'm focusing on and talking to colleagues about, and trying to assess for myself both what are the skills that we have within the workforce, and what are the new skills that we need to develop, looking ahead. And then, the sort of policy adviser role that Derek mentioned, I think, is being a strong voice for Wales at civil service level in Whitehall, and that's something I take very seriously. It will be extremely important to me to use the network of contacts in Whitehall and elsewhere that I've brought to this job, to make the best case for Welsh interests.

[15] **Nick Ramsay:** Rhianon Passmore, did you have a quick question on that?

[16] **Rhianon Passmore:** Thank you. You've mentioned numerous elements of what your priorities are going to be. In terms of the major challenges, you've outlined a number of those. Could you just give me a little bit more information as to what your key challenges will be? Obviously, I'm thinking post Brexit, the fiscal programme, et cetera, but just a little bit more meat on the bones for me as to what the challenges are within that basket of priorities that you've mentioned.

[17] **Ms Morgan:** Okay, well, I think the challenge is how to deliver the very clear priorities that I have, that I've been set by the First Minister, and in particular delivering the programme for government. How I can deliver those at a time when there is real uncertainty, including economic uncertainty flowing from future decisions about Brexit, that is not going to be resolved immediately, as everybody is aware. The negotiations will continue and we will have to make sure that those are coming up with the best possible deal for Wales and that we're influencing that process. So, the challenge is the context, if you like. The 'what' is very clear. The 'what' is the programme for government that this Government was elected on, and the challenge is how to do that effectively in the context of Brexit, the new powers flowing from the Wales Act and the establishment of the Welsh Revenue Authority, and, coming back to something I said a little earlier, the very tight resource climate, which means that we will have to look very carefully both at the size of our own organisation and the effectiveness of our spend. We can't afford not to focus on value for money.

[18] **Rhianon Passmore:** Thank you.

[19] **Nick Ramsay:** Mike Hedges.

[20] **Mike Hedges:** Can I carry on with managing performance? How do you intend to manage the performance of your senior staff and get your senior staff to manage the performance of those junior to them?

[21] **Ms Morgan:** This is a question that I know the committee has been very interested in. I think performance management will be key. It will have to be part of a future programme looking at how we improve our skills, because there's no point developing a future learning programme and programme for change if it's not linked in very closely to performance management. I think it's an area where you have identified in the past some possible areas for improvement. I will be looking to draw on best practice to make a reality of that. It's difficult, but it's fundamentally important.

[22] **Mike Hedges:** I think it is fundamentally important, and I think that, while the buck stops with you, an awful lot of the decisions are being made an awful lot further down the organisation. I don't intend to go into any detail on Powys Fadog or on the regeneration investment fund for Wales, but both were examples where middle-ranking staff undertook and did things that didn't seem to be overseen as well as they should have been by more senior staff. I think that's something that I would hope you would pay attention to. Also, as part of RIFW, one middle-ranking member of staff decided to attend board meetings as an observer, without any official sanction as far as I could tell. I mean, how are you going to bring the level of discipline that most other organisations have, so that people don't wander off to attend a meeting because they're interested in it, but they actually have to get permission somewhere along the line to attend these sorts of things?

[23] **Ms Morgan:** I don't know the particular case you're talking about, obviously, but it sounds to me as though there's a lot to learn from that, and I will. I think we have within the organisation, as you know, a group structure. I have a lot of confidence in the deputy permanent secretaries and the top team for management, and we work together through the business board to make a reality of the kind of things that we're talking about now. That will be, I can assure you, a real priority for me.

[24] **Mike Hedges:** Can I just finish on this? Because it's not abnormal that you have the top team, and that's all sorted, and you have the people at the very bottom of the structure, and that's all sorted, but some of the people in the middle often go off on their own points of view, go off on their own little

projects, and go off on things that they're interested in, and unless you've got proper management from above, then you end up having some of the problems we've experienced in the past. How are you going to ensure that your senior managers actually have a level of control over the middle managers underneath them, which really is what most of these problems came down to?

[25] **Ms Morgan:** I think that's a very good point. I think one of the ways forward is going to be to embed the objectives from the First Minister's programme for government right through the organisation. At the moment, we have the, if you like, top-level aims and objectives set out in the programme for government. We are at the moment developing four cross-cutting strategies that will turn that into something much more concrete. Those will clearly have to be underpinned by specific action plans, and I want to see everything going down through business plans across the Welsh Government and into individuals' job objectives. That links back to the performance issue.

14:15

[26] If we are very, very clear about the outcomes that we're expecting from our staff at all levels, and if those objectives are firmly embedded in their job descriptions and in their personal job objectives, then during the appraisal process and the performance management cycle, we will be bearing down on that. People should have clarity about what they're there to deliver. But I take your point, and it is an issue that we will look at very carefully.

[27] **Mike Hedges:** I won't labour this anymore.

[28] **Nick Ramsay:** You mentioned the Welsh Revenue Authority in answer to a question a few minutes ago. You're going to be the Permanent Secretary during the time of Brexit and the devolution of taxes, so it's not exactly a light time over the next few years on your agenda. In terms of this early phase of the devolution of taxes, what's your initial assessment of how that's going and the process of developing the revenue authority? Do you think we're on track, and are you happy with what you've seen so far?

[29] **Ms Morgan:** I'm going by the most recent review report provided by the Wales Audit Office, which I think was encouraging. It showed that a lot of positive progress had been made so far, which is good, but we're not going to be complacent. It also highlighted a number of particular challenges,

including drawing up the fine detail of legislative and fiscal responsibilities with key stakeholders, including the UK Government. That's clearly going to be extremely important to get right and pin down. I think the other main recommendation was that we should focus on looking at the detail of establishing the revenue authority. We're part of the way there. Things are looking good so far, but there's a lot more work to do. We will look very closely at that. It's a major project. It's important, it's complex, and so, for me, it will be a priority to oversee that project very carefully.

[30] **Nick Ramsay:** Thanks. Mohammad Asghar.

[31] **Mohammad Asghar:** Well, thank you very much, Chair. I also welcome Shan for this Welsh political squadron here. How do you intend to manage the situation that, from time to time, may arise, with differences between civil servants and the political hierarchy? I mean the people in the Government. So, how are you going to tackle that situation, Shan?

[32] **Ms Morgan:** I think the really important thing is that everybody is clear about their respective responsibilities. I am clear about my responsibilities as principal accounting officer and as Permanent Secretary for the Welsh Government, responsible for all the civil servants in the Welsh Government. I am a member of the UK civil service. I am conscious that I am leading an organisation to deliver the programme of the elected Government of Wales—the First Minister's programme for government. So, I think there is clarity about my role and clarity about the remit of the elected Government. I think as long as we have clarity and transparency and build trust, then that relationship will work successfully. Everything I have seen so far suggests that that relationship has worked very well in the past with Derek. He said that to me. I know that he was widely respected and effective in this role, and I will look to really emulate the relationship that he has had and make sure that, where there is any risk of those tensions, they are brought out early enough, transparently enough and that we have absolute clarity about what our respective objectives are.

[33] **Mohammad Asghar:** Thanks very much. The fact is that you mentioned two points there: accounting officer and the chief executive job, but you also have a third role, which is as adviser to the First Minister.

[34] **Ms Morgan:** Yes.

[35] **Mohammad Asghar:** That area you very intelligently never mentioned

in your statement.

[36] **Ms Morgan:** I guess, only because that's a less-easily-defined responsibility. The Permanent Secretary role and the principal accounting officer role are set out very clearly, including in the job description for this role. You're right about the policy adviser role. That is perhaps more cross-cutting, and I will look forward to that. One obvious area is that I bring a great deal of expertise in EU matters. There is an excellent team within the Welsh Government; so, the First Minister and the Cabinet are already very well advised, I think. But I can add both my own experience and expertise to that, and also my contacts in Brussels and across Whitehall, to make sure that we get the best deal possible for Wales.

[37] **Nick Ramsay:** The Welsh Government senior management was restructured in September 2015, Permanent Secretary. What's your initial assessment of the current structure and governance of the organisation?

[38] **Ms Morgan:** I've been here five weeks now. I think it would be a little bit premature to reach any final conclusions. As I said in my first impressions, I think this feels like an organisation that is working well. All organisations can work better, but, to me, this feels like an organisation that is working well. I've had a lot of contact with my senior team. I've been very impressed by them and I know that they have the confidence of the First Minister and Cabinet, which is really important. But, you're quite right, I do need to make sure that that continues.

[39] It seems to me that the two-year mark is probably not a bad time to have another look at whether the organisation is delivering what we need. And of course, that new structure was established in advance of Brexit, in advance of the referendum, so, I think there is an obvious difference. There are consequences that have flown from that for us, so, I will look at those carefully. It seems to me that there is an opportunity in the autumn to review the structures.

[40] I've made clear in my opening presentations to all staff that I'm not somebody who's going to come in and impose change for change's sake. I don't believe in doing that. I believe in looking at what's working, what's not working, drawing on best practice and getting things right, including by looking at the reports that your committee has provided and the reports that the Wales Audit Office has provided.

[41] **Nick Ramsay:** I'm aware you are getting asked a lot to hear about your initial assessments. We do recognise that they are, after just a month, of course, initial. Lee Waters.

[42] **Lee Waters:** Thank you. I'm just interested in the structural point and relating that to the relations-with-Whitehall point. Your predecessor but one, Dame Gill Morgan, identified a problem in terms of how seriously our officials were taken at a Whitehall level and created a series of directors general in the hope that, in that hierarchy-conscious organisation, they'd have a bit more clout. Those were quickly dismantled after she left, but the problem she was trying to identify remains.

[43] I was struck by what happened on Friday. We had the announcement that the Welsh Government had vetoed the department for culture's proposed nominee for the BBC board. Clearly, there was talk of some bad blood in the off-the-record briefings and eyebrows being raised in Whitehall. I just wondered if you think that we are being taken seriously enough at the Whitehall level, and whether you think we have the capacity to punch above our weight. This is especially important post Brexit, when there's going to be a scrap over where powers lie. I'm just wondering how you intend to navigate that very tricky minefield.

[44] **Ms Morgan:** I've had a lot of contact with all the devolved administrations over probably about the last 10 to 15 years, because the various different jobs that I've done, particularly in Brussels, have involved negotiating on matters that are reserved at EU level but devolved at national level. So, over the years, I've had a lot of contact and developed close working relationships with a large number of officials, including from the Welsh Government.

[45] My impression is that they have been very effective in putting across Welsh views. There are various fora established already for doing that. I think the White Paper that the Welsh Government produced recently was an extremely good example of a document that was considered and rigorous. It was a heavyweight document, setting out in a very measured way the potential impact of Brexit on Wales and the actions that we feel are necessary to mitigate that. That document, I know, from my own contacts, was well received.

[46] In London, I think it's part of my job to help make sure, as you were saying earlier, that Wales punches above its weight. I think that was part of

the reason why the First Minister chose me for the job because of the extent of Whitehall expertise and contacts that I have. I think we will all have to work very hard at all levels to make sure that the Welsh voice is heard, that our concerns are understood, and our priorities are understood and taken account of. You are right that, post Brexit, that becomes particularly important because there are very real differences between the economies of, say, Scotland and Wales. We have manufacturing companies, whereas in Scotland there are remarkably few. They have a much larger financial services sector, for example. So, I think it's part of my job to make sure that people understand that there isn't just a melting pot of devolved administrations with particular interests and issues in relation to Brexit, but that we have very particular priorities and concerns, and that there will be particular impacts on our economy flowing from whatever options come out of the negotiations.

[47] **Lee Waters:** I just wonder whether or not you think that we've got sufficient capacity to be able to do this. For example, I understand that, in agriculture, some of the senior officials there have been reassigned in order to deal with trying to figure out what we're going to do post Brexit—quite rightly—but that has meant that we're short-staffed in other bits of agriculture, and decisions that are pending have been delayed. So, clearly, there's a judgment to be made on how to allocate resources around the system, but do we have both the capacity and the calibre to be able to fight this one smartly?

[48] **Ms Morgan:** I think the question that you have asked sums up my CEO responsibility for probably the next five years: so, looking at the organisation to see whether we have the skills and the capability to deliver what we need to deliver, both here and have the right kind of impact in London. All of that is what I'm assessing at the moment. So, I think that you are absolutely right: we need to—I need to—be very clear about what the skills and capabilities are that we need, and where they are. If they're not where they should be, how can I put them there, and how can I train and retrain the staff that we have to meet the needs of probably a rather different kind of future where, for example, I think we'll need more people with policy skills than we have at the moment? We do a lot more delivery than deciding our own policy. I think we'll also need people to have a lot more skills in working across policy boundaries. They will need to do that in order to make a success of the four cross-cutting strategies, but I think there is a wider issue about people being able to make linkages between policy areas to maximise the impact of the funds that we have.

[49] **Lee Waters:** Thank you.

[50] **Nick Ramsay:** Neil Hamilton.

[51] **Neil Hamilton:** When Sir Derek came before this committee last, he was pretty confident that he could achieve all that needs to be achieved with the devolution of further powers to Wales, and also with the challenges of the Brexit negotiations, without any increase in the number of people employed in the Welsh civil service, which I thought was the heroic confidence of somebody about to leave his position. [*Laughter.*] I'm wondering whether you share that optimism.

[52] **Ms Morgan:** I'm always optimistic. I'm also a pragmatist. It's very clear that we are in a climate of very tight resources. So, frankly, I will not be making plans to expand the number of staff working in the Welsh Government, but I think it comes back to the point that Mr Waters was making about how we build the capacity of staff and where we allocate the resources that we have. I think there may need to be some work in those areas. There's certainly some work needed to build capacity for the future—and build capability—and that is what I'm working on at the moment. But I think I would be overconfident if I were to say that I had real expectations of being able to increase the number of staff. We're not in that kind of resource climate. We have to work smarter, better and more skilfully.

[53] **Neil Hamilton:** Okay.

[54] **Nick Ramsay:** Mohammad Asghar.

[55] **Mohammad Asghar:** Thank you very much, Chair. As the UK prepares to leave the European Union, Shan, how will your experience in working with the European diplomatic institutions around the globe—in Europe and Argentina—help to safeguard the interests of Welsh people, or the Welsh Government?

14:30

[56] **Ms Morgan:** I hope that I will be able to work with, as I've said, the excellent team that we have here—a very experienced team—to identify what the potential risks are. As I said, there is a very good document in the shape of the White Paper, which sets out a very broad assessment of the risks and opportunities ahead. It's part of my job to work with them. For example, I

accompany the First Minister to his meetings with the UK Prime Minister, I have regular meetings with Sir Jeremy Heywood, the head of the UK civil service, and with the two other permanent secretaries from devolved administrations to talk about what matters to us, what our priorities are and what needs to be taken account of in all work on Brexit. So, I will work with the people already working in that area. I will add a further layer of contacts that I can draw on and work with: levers that I can pull, if you like. I know all my counterparts well across the whole of Whitehall and it will be my job to make sure that they understand very clearly and sympathetically what matters for Wales.

[57] **Mohammad Asghar:** Thank you, Chair. You said rightly that you have contacts with Whitehall and also the other devolved nations' permanent secretaries. You're very good to listen to them and their views and to agree with most of them, but my point is: what is Wales going to get after Brexit? That is the area about which I would like you to make sure that Wales is not left out or doesn't lose out, and your views should be heard on the other side seriously. So, what are you doing on that, please?

[58] **Ms Morgan:** That is where—. I go to London every Wednesday. Sir Jeremy Heywood, the head of the UK civil service, has a regular meeting of all permanent secretaries, and I will make it a priority, as my predecessor did, to attend those meetings, which is where I can inject a Welsh point of view very easily that is heard by all permanent secretaries across the whole of Whitehall. So, I will continue to do that and each time that I go I also build on a programme of discussions with other permanent secretaries representing departments like the Department for Environment, Food and Rural Affairs and others where we have a great deal of interest.

[59] **Nick Ramsay:** We've relied really heavily since joining the European Community originally and the EU now on there being a lot of expertise in Brussels to deal with things such as trade deals and international negotiations. You mentioned earlier that Brexit was going to require a shift of resources. Building on from Neil Hamilton's question to you earlier, is it unrealistic to imagine that that can be achieved post Brexit without some kind of increase in the staffing of the Welsh Government? Even if that doesn't happen in the immediate future, surely Wales having to play its own role in a bigger way on the international stage, and the UK as a whole, will mean that we need expertise that currently we don't have and that will have to come in from outside?

[60] **Ms Morgan:** I think it's fair to say that we would benefit from an injection of some external expertise. I hope I bring that personally, coming from the outside. There are other areas that could be valuable. I do accept that completely. I am very keen to set up a learning and development programme that would involve a lot more two-way traffic—that people from the Welsh Government would go on secondments and exchanges to other parts of the UK civil service and in exchange we would have experts coming here, bringing expertise for shorter or longer periods. But I also believe very firmly in making sure that we're making the best use of our own talent within the organisation, rather than always looking outside to bring people in. We will need to do some of that. We always have done some of that. But the most important asset we have by far is our existing staff, which is why I also want to focus on making sure that all of us have the right skills and expertise to deliver for the future.

[61] **Nick Ramsay:** So, that capacity can be developed if we focus on it properly.

[62] **Ms Morgan:** I think so. I mean, we have to—we have to. It's very clear and I think the programme for government gives a very good template for that. It gives us a very clear agenda, and a clear set of objectives and way forward. So, I will build on that to realign the priorities of the Government, and of the officials within the Welsh Government, and to use it as a template for making sure that we've got the right kind of skills to make all that happen. I'm making it sound very easy. I know it's not. It's very challenging, and I really am not complacent about that. I have four big priorities—

[63] **Nick Ramsay:** I think you've explained it in simple terms, rather than making it sound easy, which is very helpful to Chairs of committees like this. Rhianon Passmore next.

[64] **Rhianon Passmore:** Thank you. You've been very clear about that, in terms of what you think needs to happen in terms of learning and development and capacity building within the organisation. Does that meant that you are going to rule out or contemplate restructuring in any way?

[65] **Ms Morgan:** It depends what you mean, really. No, I'm not going to rule out restructuring. What I am ruling out is over-optimism about the future size of the organisation. We need to live within our means. Our means are actually getting tighter, so we have to live within those means. As I've said, I'm not going to uproot everything immediately. I have a great deal of

respect for my predecessor. I think this is an organisation that feels as though it's working well. He left me some messages about things I should focus on, and I will draw on those, as well as the recommendations from the committee. So, I don't rule out restructuring—

[66] **Nick Ramsay:** The note wasn't, 'There's no money left', was it? [Laughter.] We've heard about messages left for successors in the past.

[67] **Ms Morgan:** No, it wasn't. It was much more helpful. But, as I said, I would like to take stock in about the autumn, when the new structure will have been in place for about two years. That seems the right time to me. By then, we'll have the detail of the four strategies developed as well, and I'll be able to start matching things up, obviously working very closely with my top team.

[68] **Rhianon Passmore:** Thank you.

[69] **Nick Ramsay:** Lee Waters, did you have some questions?

[70] **Lee Waters:** Yes, I would just like to touch on another area. You mentioned the shape and the size and the skills of the Government that you've come into. You also mentioned some of the gaps that you thought existed in terms of policy, skills and working across boundaries. You haven't mentioned digital. Sir Jeremy Heywood has talked about digital as being one of the major challenges facing the civil service. So, I just wonder whether you have an initial assessment of our digital readiness and some of the challenges that the Welsh Government faces in adapting to them.

[71] **Ms Morgan:** I agree absolutely, and I think, in all of our policy areas, we are moving towards a digital-first kind of approach to work. I didn't mention digital, but I would see that as an enabler. You're quite right: it is a skill set in itself, and we need it. My impressions so far are that IT in this organisation is quite good. I haven't yet had an opportunity to assess the extent of our own digital capabilities, but I think the IT we have is good. For example, I'm very keen—and it comes back to earlier points—for us to make a reality of flexible working, which requires a good IT platform to support it. We've just had a pilot in Merthyr using flexible working. People, I think, have really enjoyed that experience and benefited from it. We can apply the lessons across the organisation, some of which will be about the nature of the kit itself—what facilitates flexible working—and some of which will be about digital skills. I will be very keen to learn the lessons from that.

[72] **Lee Waters:** I don't think digital is just about kit. I think it's about mindset, and it's about transformation of public service delivery. I'm struck that, in terms of the UK Government's activities in Wales, there are institutions like the DVLA, Royal Mint and Companies House that have significant digital capability. They have big sources of big data in themselves, and they are doing interesting things. And I look at the things within the purview of the Welsh Government, both the civil service but also in terms of local government and the NHS, where digital thinking and digital progress is a lot slower and less exciting. So, I just wonder whether if you have any reflections on whether or not we're not we are prepared to meet the changing shape of—. I was reading something this morning that said that 38 per cent of American organisations are already using artificial intelligence, which is going to grow to 62 per cent by 2018. So, in terms of customer service in relation to the public, this seems to be a massive agenda that isn't really on the radar of very many people in the Welsh Government, it seems to me.

[73] **Ms Morgan:** Well, I think you've put it firmly on our radar now. It's something that I will look at very carefully because I think it is—. I agree, we're not just talking about kit, we're talking about skills as well as mindset. It will be very, very important to maximise our effectiveness, maximise our flexibility, as well as improve our customer service interface by using digital skills. So, it's something that I will look at very early on.

[74] **Lee Waters:** Great, and perhaps you can come back to us on that.

[75] **Ms Morgan:** I will.

[76] **Lee Waters:** Thank you.

[77] **Nick Ramsay:** We haven't yet touched on the NHS and the health service in Wales, which clearly is a very big—well, it's half the Assembly's budget, and growing, as Mike Hedges will tell you. At the end of January 2017, one health board was in special measures and three were in targeted intervention. Will the NHS be an area where you will look to review the current strategy?

[78] **Ms Morgan:** I've been talking, obviously, to Andrew Goodall, who's the director general for health and social services and also the chief executive for NHS Wales. He's very much a part of my senior team and he's helping me

understand that dual role, which in itself is complex. We've started to discuss NHS performance. I will soon be meeting the Cabinet Secretary for Health, Well-being and Sport, and that is something that I will be talking to him about. I need a very clear understanding of his priorities and concerns in order to be able to address the future. But that's something that is high on my list. Clearly, as you say, the NHS and health service delivery take up about 50 per cent of our budget—that's massive. There are also important public expectations about what we can deliver. One of the four cross-cutting strategies, of course, is the healthy and active strategy, so there are linkages across to there. It's very important; it will be an early focus for me. And first, I would like to establish the priorities of the Cabinet Secretary for Health, Well-being and Sport.

[79] **Nick Ramsay:** It's an appropriate point to bring in Mike Hedges.

[80] **Mike Hedges:** Yes, I've got an interesting and unusual view on health. I believe that we need to make sure that people get a proper diet, a good diet, they exercise more, they keep their weight down so they don't end up with type 2 diabetes, and that we work on smoking cessation. Our health programme seems almost all about dealing with people when they're ill. Do you think we ought to be doing more to stop people being ill and are you aware of the pressure on social care, which is really about people who are frail rather than unwell?

[81] **Ms Morgan:** I'm very well aware of the reporting that I've seen since I've taken up this role. I'm also aware that this is a complex and multifaceted area on which I would hesitate to pronounce so early in my appointment, frankly. But I take the point that you're making about well-being and preventive care, the importance of that and what it can achieve. I know it's something that Mr Sargeant is very focused on as well. But it's something I will need to consider very carefully and discuss with both Andrew Goodall and with the Cabinet Secretary.

[82] **Nick Ramsay:** Okay. Neil Hamilton.

[83] **Neil Hamilton:** One particularly important facet of your new job will be getting to grips with the Welsh language, both in a personal as well as in a policy way. All political parties are signed up to the Welsh Government's objective of 1 million Welsh speakers by 2050, and indeed all the practical measures to, as far as we can, achieve that objective, but whether that degree of unanimity is shared below the level of the Assembly is

questionable. There will undoubtedly be problems thrown up, such as what's been reported recently—you might have seen the case of the primary school in Llanelli, in Llangennech—and the importance therefore of bringing people along with us to achieve this objective. So, I'm just wondering whether you could give your initial views on the challenges facing the Government's Welsh language policy in Wales.

[84] **Ms Morgan:** I don't underestimate the challenges. Where I am in my office, I hear Welsh spoken around me all the time. I think a lot of work has been done, and actually very successfully, to embed the new Welsh language standards. That is very important.

14:45

[85] Clearly, we need to go further. I'm going to meet, very soon, the directors in the Welsh Government who lead on implementation of the standards strategy to discuss the progress, what they've learned from that, what is good practice, and what we need to do more of. And in the meantime, I've made a personal commitment to continue learning Welsh. I've already had my first assessment, and they've decided I can go in at the second level, not the introductory level. So, I shall look forward to that.

[86] Esgusodwch fi am siarad yn [87] Excuse me for speaking in Saesneg. Dim ond dysgwr ydw i. English. I am just a learner.

[88] **Neil Hamilton:** Da iawn. So, your experience in Patagonia has not been unhelpful in this respect, evidently; it's given you some advance practice in this skill. But, in practical terms, again, to move along the continuum of getting more and more people to use the Welsh language in daily life is going to be a challenge for the public service generally, and there is a resource implication in this, of course, as well. But, I was wondering whether, coming in from the outside, as it were, or at least having been outside for a long time and seen a bit of the world, whether you've formed any initial impressions as to how practical current plans might be in terms of the resource implications that are currently being assumed.

[89] **Ms Morgan:** I think there aren't necessarily resource implications if there is the will to learn. I'm struck by the variety of training offers for Welsh Government staff. There are conversation groups, there are lessons and there are classes. Everybody has access to language tools now like Duolingo, all of which make language learning easier. I think there has to be the will, doesn't

there, and what the Welsh Government is doing is generating the commitment. Part of my job is to try and take that forward and generate the will and make sure that the training offer is there for those people who want to take it up, and I shall be leading from the front.

[90] **Neil Hamilton:** The problems of implementation of this policy are going to grow as we move out of areas that are predominantly or largely Welsh speaking and move into areas where very little Welsh spoken. And so, it's—I think, anyway—a big job to persuade people, which is a job that has to be done, that this is something worth doing and worth committing oneself to. So, I'm hoping that that would be part of your objective.

[91] **Ms Morgan:** I agree. It's a challenge, but it's one for which there is a great deal of political commitment, and we need to push that forward.

[92] **Nick Ramsay:** Lee Waters, did you have a supplementary question?

[93] **Lee Waters:** I'd like to talk about another area of cultural change and policy challenge, namely the future generations Act. It seems to me that there is certainly the potential for this to be an exciting and innovative policy field. There's also the potential for it to be a drab box-ticking exercise. But it's different and it's new and it's going to stretch us. So, I just wonder what your initial thinking was. How are you going to make sure within the policy-making process there's sufficient rigour to challenge traditional ways of thinking, to make sure that these principles that we've embraced in law mean something in practice so that decisions made will be different?

[94] **Ms Morgan:** I agree; it does imply a new way of working. I've already spoken to the auditor general about how he is going to be auditing the Welsh Government in relation to the goals and the ways of working set out in the future generations Act. There of course are linkages with the programme for government—very clear linkages, I think—and we'll need to think about how to make sure that, through the way that we are delivering the programme for government, we are also achieving the goals and ways of working set out in the well-being of future generations Act. An example is how we are consulting with people on the four strategies more extensively than we would normally. I won't say any more than that at this stage. It is exciting, I think it is—. I've read the Act, obviously. It's extremely innovative, it's ambitious, there are a lot of challenges in there, and I am meeting very soon the future generations commissioner, Sophie Howe, to discuss that and—

[95] **Nick Ramsay:** Do you fear it might be too ambitious and that's part of the reason why it's proven so difficult to make sure it works on the ground?

[96] **Ms Morgan:** I don't have a view yet on how ambitious it is. I think it is innovative, the goals are ambitious, but they're about how we do things. So, we need to be thinking that through, and I'm going to talk to her about her experience so far of what's been done in practice, and, obviously, we'll be talking to the audit office about how they will be auditing people and what that therefore means that we should be doing. I think there needs to be a dialogue between us. If we can get clear in our minds what it is that you can audit and that we should be doing, we can do it.

[97] **Lee Waters:** I'm not—

[98] **Nick Ramsay:** Briefly.

[99] **Lee Waters:** I'm not sure this is an Act that should be driven by the auditor general. I'm not sure that it's he who should be leading how we should be making decisions. I think one of the dangers of the Act is that it could mean all things to all people. For example, the Government's QC at the beginning of the Newport public inquiry said that building a new M4 was in the interests of future generations. Now, that's one interpretation of an Act, and the fact that it's so ambiguous is maybe one of the problems, having raised expectations. So, my question to you is: how do you build into the policy-making process that rigour, to make sure that there's real challenge at the policy development stage, so it gives this some meaning, rather than allowing statements like that to be made in the name of the Welsh Government?

[100] **Ms Morgan:** Well, this is exactly why I want to talk to the commissioner, to be honest, to talk about practical progress and to see where there are examples of good practice already, because you're absolutely right; some of the goals and ways of working are very wide ranging, so we need to pin that down very rigorously, to make sure that we are meeting them.

[101] **Nick Ramsay:** We are sadly out of time. I think that that's a rigorous enough line of questioning for the Permanent Secretary after just four or five weeks in the job. But it's been great having you with us today. We built up a good relationship with the previous Permanent Secretary, and we hope to work closely with you to ensure that we have the same relationship. So, thank

you for being with us today, Shan Morgan and David Richards. That's been really helpful. We will send you a transcript of today's proceedings, just for you to check through before it is published.

[102] **Ms Morgan:** Thank you very much. And thank you for the opportunity to meet the committee so early on, because, inevitably, it is helping to shape my own personal priorities in the job, and I value that very much.

[103] **Nick Ramsay:** Thank you for your time. I appreciate that it's been a busy few weeks for you, and no doubt you'll have a very busy schedule. But thank you for taking the time today to come and answer the committee's questions.

[104] We will now take a short break of seven minutes.

*Cohiriwyd y cyfarfod rhwng 14:53 ac 15:01.
The meeting adjourned between 14:53 and 15:01.*

**Ymchwiliad i Drefn Reoleiddio Cymdeithasau Tai:
Sesiwn Dystiolaeth 12
Inquiry into Regulatory Oversight of Housing Associations:
Evidence Session 12**

[105] **Nick Ramsay:** Can I welcome Members back to the Public Accounts Committee? Can I also welcome our witnesses? There's been a quick changing of the guard during the break. Would you like to state your name and positions for our Record of Proceedings?

[106] **Mr Howells:** John Howells, director of housing and regeneration in Welsh Government.

[107] **Mr Williams:** Ian Williams, deputy director, homes and places.

[108] **Nick Ramsay:** Thank you for being with us today. This is evidence session 12 of our inquiry into regulatory oversight of housing associations. We have a number of question areas for you, so if, at any point, I'm moving things on, it's just to get through as many areas as possible. I'll kick off with the first question. In terms of the effectiveness of regulation, what's your view of, currently, how open and transparent the system is and any lessons that the Welsh Government has learned from complex cases? Who wants to

take that? John Howells.

[109] **Mr Howells:** Shall I take that one on? I think the regulation team is making a very effective contribution, but we are on a journey and there are further improvements that we'd like to make before I'm in a very happy place. I'm struck by the positive response we're receiving from tenant groups to the new regulatory framework. I'm encouraged by the confidence expressed by lenders. Our performance indicators are looking much healthier. Next year, we'll be undertaking regulatory assessments for each of the 34 registered social landlords in Wales, and financial viability judgments for those 34 RSLs. But as I mentioned earlier, there's still plenty of scope to improve our systems.

[110] **Mr Williams:** And if I may add, in terms of some of the systems that we've been introducing over the last six to nine months that can improve our regulatory effectiveness, maybe an example would be putting a regulatory requirement on stress testing—meaningful stress testing—on business plans, and also enforcing the assets and liabilities. I know these sound like maybe dull and technical issues, but they form the bedrock of financially viable organisations. So, we've been enforcing those over the last nine months as well. So, I think that will create additional effectiveness.

[111] **Nick Ramsay:** Do you think the changes made in January 2017 are sufficient to make the regulatory system more robust?

[112] **Mr Howells:** We think so, but I would say that it's still early days. Those changes have emerged from considerable consultation with the sector. The new regulation advisory board is playing an important role in challenging the team, in adding value to the team's work, but those new arrangements haven't been in place for very long yet.

[113] **Nick Ramsay:** And I suppose the key question is: would some of the more complex cases that resulted in intervention have been avoided if the new systems and processes had been in place earlier?

[114] **Mr Howells:** That's a difficult question to answer. They're designed to streamline the system to get us into a place where we're communicating regularly back to boards and senior executive teams. It's difficult to answer your hypothetical question.

[115] **Mr Williams:** In the 12 months I've been in post, stakeholders have

constantly told us, ‘We need you to be clear and transparent about what you actually think as a regulator.’ I believe the changes that we brought in in January, the judgment framework—the report’s a lot shorter—at least gives an opinion, a moment of truth, to every housing association once a year, and that wasn’t the case before.

[116] **Nick Ramsay:** I think Rhianon Passmore had a question on that.

[117] **Rhianon Passmore:** Thank you. So, in regard to the new regulatory framework, I obviously understand that it’s only just embedding; I’d like to understand more fully—and I’ve still not, actually, had a satisfactory explanation—as to what is different in terms of being able to intervene on a far earlier basis, rather than get to that stage of statutory intervention. What is actually inbuilt within the new regulatory framework that will make it more successful?

[118] **Mr Howells:** I’ll ask Ian to answer the technical side of that question but, in a general sense, one of the features of the regulatory system up until the new framework was developed was that we were taking a long time to come to a considered view on our assessment of what are difficult questions to assess about the quality of governance of complicated organisations. The new system requires us to come to a view on those matters in a set period of time. That will be a new discipline, which will be challenging for the team, which will hopefully develop more productive discussion with boards and senior executive teams, but will crystallise our view on important but complex issues and so, in theory, will enable us to intervene where we perceive there to be problems. But Ian perhaps will explain a bit more about the actual fine judgments being made.

[119] **Mr Williams:** I think John’s addressed it fairly well in all honesty. In 2014–15, we issued four regulatory opinions. Quite frankly, that means a seven-year cycle almost. This year, we will address 27 regulatory opinions, and next year we’ll cover everybody—all of them. Now, the simple fact of having to make the regulatory opinion every year means that there is just more chance of catching poor practice, poor governance, poor financial viability. So, that’s the first thing. Second, if we’ve made learnings from—I think you talked earlier on in your first question—I apologise I didn’t address it properly—about learnings. Something important that we’ve learnt is about acting early, particularly when you sense housing association boards are in denial about poor governance, and I believe—. And it is early days; it will be under constant review by a new regulatory board, and if it’s failing then we’ll

change it. But I believe that this new way of working will allow us to capture poor performance and poor governance earlier.

[120] **Rhianon Passmore:** So, purely because then in terms of (a) the requirement and (b) the set timescale in terms of making that judgment. And, in terms of the financial liability judgments that you said that you're now having to do across the piece for the 34, can you explain a little bit more about that in terms of what that means in terms—

[121] **Mr Williams:** A financial viability judgment—it's kind of the arithmetic part of the work that we do. It's checking cash flows, it's 30-year business plans—checking that they're being stress-tested, not just on, say, what will happen if you add 1 per cent to your maintenance costs, but what will truly happen in two or three years' time under welfare reform, and a more subtle level of testing, I believe. We expect boards to be testing their business plans to destruction—‘What is it that will kill your business plan?’ That's the core of the financial viability judgment.

[122] **Rhianon Passmore:** Okay. So, ‘How are you holding boards accountable?’ is another question that I've not necessarily received proper answers for.

[123] **Mr Howells:** It's important to remember the role of the new or the existing Community Housing Cymru code of guidance on governance, and the expectation that all boards will adhere to that code. The challenge for the regulation team is then to satisfy themselves that that's happening, and to do that through a grown-up discussion with boards designed to reach a common understanding on the challenges that those boards face, and an agreed view on the extent to which the boards are responding to the challenges and the risks that they're seeking to manage.

[124] **Rhianon Passmore:** So, what's different now compared to where we were before the new regulatory framework?

[125] **Mr Howells:** That was the process we were going through previously. The new element is the four judgments that the team will come to as a result of that challenge, so there's a crystallisation of what the regulation team thinks about what they're discovering through their engagement with housing associations.

[126] **Mr Williams:** There's an additional thing that I think might help. In the

performance standards, what we're expecting—boards are independent organisations that are empowered to make decisions. We are expecting them every year, against the performance standards, to provide us, signed, a compliance statement that just says, 'We are complying with all these performance standards.' Again, I can understand it sounds a bit dull, but that allows us, when we're able to triangulate against some of the evidence behind that statement of compliance—it's very useful. And it's new, and we'll see how it works and we'll see how well it plays out, but it's something that we've developed with the sector and brought the sector with us on, and, equally important, all the other stakeholders.

[127] **Rhianon Passmore:** Okay. Thank you.

[128] **Nick Ramsay:** Mike Hedges.

[129] **Mike Hedges:** As we've moved on to financial resilience, can I take that a stage further? Do you know at what level of interest rates and/or what level of lack of rents being paid that each housing association moves into crisis?

[130] **Mr Howells:** I'll have a go at that question. I think the answer is different in each case. We have highlighted interest rates as one of the key risks that the sector faces on an all-Wales basis. The really important thing is that individual boards are assessing that hard question with regard to their business plans, their arrangements with lenders, their long-term deals, the short-term deals and the mix of treasury arrangements that they all have. So, although there may be a scientific averaged answer across the whole of Wales, which I'm not aware of, the really important thing is that each board is assessing that question with regard to their business.

[131] **Mr Williams:** Particularly around fixed and variable rates: so, you have some organisations that have 95 per cent of their lending fixed for the next 25 years. That's quite high. The average would be somewhere between 50 per cent and 60 per cent.

[132] **Mike Hedges:** If I come back to the first there, I'll just follow on from that. Do you have a view on what percentage of fixed to variable you would think that it would be good for housing associations to have? It would be within a range, obviously, but do you think it's 60/40, 80/20, 50/50?

[133] **Mr Williams:** It depends on the amount of flexibility you want to have and, particularly, on the interest rate covenant that you have negotiated with

your lenders. I think it will just depend on the business model that you have. I'm not a corporate treasury expert. What we seem to see is that 60/40 split seems to be in operation, but I really couldn't make a—

[134] **Mr Howells:** Ian did describe it as 'dull' earlier. I think regulation is a really interesting question, but the answers are very difficult to identify, and I made this point, but the important challenge that boards face is that there isn't a right answer. They've got to satisfy themselves from the way that they ask questions of their senior executives that that ratio make sense in relation to their business. One of the roles that the regulation team plays is to support boards in reaching the right answer.

[135] **Mike Hedges:** If I can just come up with a thought, for the moment, before I come to my next question, if we were to be having this discussion with bank regulators 10 years ago, I'm sure we would have had very similar answers. I think that's one of the things that really does frighten me. But, surely, there is a level of interest rate that each one of those would break, and do you know what that level of interest rate is for each housing association?

[136] **Mr Williams:** Given that they will have—. I can think of a housing association in west Wales, as I said, that has 95 per cent of its lending at a fixed rate over the next 30 years, so it probably would be—for the remaining 5 per cent, it would be incredibly high, the rate that would actually break the business. Some of those, if they have a variable rate for 60 per cent or 70 per cent of the business, then, clearly, it would be a lot lower. So, it will literally depend on each—. But let me assure you, each organisation—the very first piece of stress testing they do—it's the most de rigueur one—is that they work out at what interest rates their business breaks. So, they'll all be different. So, that one certainly gets done. Inflation rate is the other one and there are a few others. What we were saying earlier is I think we're getting to the more nuanced level for stress testing as well.

15:15

[137] **Mike Hedges:** Do you know at what level of interest rates they break?

[138] **Mr Williams:** For each individual—?

[139] **Mike Hedges:** Each individual. Do you know?

[140] **Mr Williams:** I personally couldn't tell you, now, for Family, or whatever, but I can assure you that my staff would be able to know—

[141] **Mike Hedges:** I wasn't going to ask what they were, but I was just saying that—. Does somebody inside the organisation know—

[142] **Mr Williams:** Of course.

[143] **Mike Hedges:** —so that, if interest rates reach 10 per cent, 15 per cent or whatever—something that some of us have lived through in the past—you'd know which ones came at risk at what stage?

[144] **Mr Howells:** We do have intelligence based on the process of developing financial viability assessments that mean that, as part of the risk assessment that we do, we know where the greatest challenges are going to be. We're hopeful that the move towards higher rates will be at a slightly calmer rate than some of the experiences that we've had in the past. That's a hope.

[145] **Mike Hedges:** I think it really is a hope, isn't it? Because when interest rates start going up—. I have a view that when the pound reaches parity with the dollar, somebody will do something to stop it being how many pounds to the dollar, and then interest rates will be raised in order to reach that. That's just a personal view. I may be absolutely wrong—different economists will have different views on that—and we may have £2 to the \$1 in 10 years' time and people might be quite happy with that. But, if we do start taking action, then the amount you'd have to put up interest rates by each time in order to protect your currency very rapidly increases, as I'm sure Neil Hamilton can tell us.

[146] **Mr Howells:** Interest rates aren't the only risks. I was struck by the experience of housing associations in England where the Chancellor announced a change in their rent policy, from a policy where rents were increasing at above the rate of inflation to a policy—within, I think, a matter of four months—where rents were increasing below the rate of inflation, and that was a very significant matter that the regulator in England felt it needed to intervene with regard to, because that was a challenge for all of the sector, and there are lots of things that are unknown at the moment.

[147] **Mike Hedges:** Let me just finish with a last question on resilience. A lot of housing associations have gone into different areas outside of building

houses and renting them out: some have gone into building, some have gone into development, some have gone into social care. Do you have any concern about their exposure to areas outside housing and the effect that that could have on their nominal core business of housing?

[148] **Mr Howells:** I don't have a concern that those areas of activity put their core business at risk. I have a concern that it's really important that the organisations are able to manage those businesses. I think this committee has been presented with some really interesting evidence about the range of diverse activities that housing associations are entering into. I thought that the evidence from Cynefin about what they're doing for the Welsh language in Gwynedd was indicative of one sort of contribution. The contribution that Newport City Homes are making to regenerate the centre of Newport is a really important contribution to the centre of Newport. I also think that Wales & West is an example of an organisation able to make a contribution outside a narrow footprint. I visited their extra-care facility in Mold, which struck me as an excellent example of bringing expertise to bear, making a real difference for residents in that town.

[149] **Mike Hedges:** Okay.

[150] **Nick Ramsay:** Thanks, Mike. Lee Waters.

[151] **Lee Waters:** Are you clear what the purpose of regulation is?

[152] **Mr Howells:** Gosh. Yes, it's to provide reassurance to a number of key stakeholder groups—is the way I think I'd describe it. It's intended to provide reassurance to tenants that their landlords are thinking about their interests in the way they deliver their business. It's intended to provide reassurance to lenders that these are well-managed organisations that it is safe to lend money to—there's £2.5 billion being borrowed to the sector in Wales. And it's designed to provide reassurance to Welsh Ministers that it is safe to invest significant sums of money on what we consider to be a really important housebuilding programme, where the RSLs are key delivery agents—they delivered 80 per cent of the 11,000 homes built during the last Assembly term. So, each of those areas of business are areas that benefit from having clarity and reassurance about effectiveness of management.

[153] **Lee Waters:** Because the pattern of your answers so far has been to stress the role of the independent boards. You've also stressed the role of Community Housing Cymru, as the umbrella body. It's not clear to me, as the

co-regulator, what your responsibility is and what added value you bring to this.

[154] **Mr Howells:** Well, it's co-regulation. So, it's adding value to what I would describe as the lead responsibility of those boards.

[155] **Lee Waters:** What's the value?

[156] **Mr Howells:** I suppose it's a reflection of—. Whilst the lead responsibility lies with those boards, this is intended to provide an independent assessment of the role that those boards are playing.

[157] **Mr Williams:** I think—if I may jump in—our equivalent, Julian Ashby at the Homes and Communities Agency, quite often pitches it around about 50 basis points. He says the value to the lenders of having a regulator of social housing is worth—he doesn't exactly quantify it because it's probably unquantifiable—a certain amount, whether it's 50 basis points or 100 basis points. There is a value to it. If that's true, that's an enormous return on our costs. But that is, I would imagine, the prime value to the lenders.

[158] **Lee Waters:** So, you think there could be another way of providing that reassurance, but it would be a more expensive way.

[159] **Mr Howells:** There's definitely a more expensive way of providing that reassurance.

[160] **Lee Waters:** But that's essentially your role, to provide the check, and you don't think there's a more effective way of doing that.

[161] **Mr Howells:** I'm very happy for the team to be challenged on whether it is possible to do this in a more streamline manner.

[162] **Lee Waters:** It's the model I'm asking about, rather than the—

[163] **Mr Howells:** I'm normally given a hard time by housing associations about the level of resource we're able to provide—

[164] **Lee Waters:** That's not my question. My question is about the model. Is this the right model to provide that reassurance and challenge?

[165] **Mr Howells:** I think it manages to do those three different jobs, and in

a way that strikes me as pretty lean and mean.

[166] **Lee Waters:** Okay. You said in your evidence that the lack of a co-regulatory approach and the failure to share information can be a warning sign of potential issues and has been a factor in our most complex cases. So, can you give us some examples of the failure to share information and what the consequence of that has been?

[167] **Mr Howells:** One of the cases where we have been sharing with the sector our learning was in relation to Family housing association. Family were happy for us to share our experiences of that case with the sector more generally, and one of the issues in relation to that case was the speed with which the board felt able to respond to the external challenge coming from the regulators. That's, I think, an example.

[168] **Lee Waters:** Okay, so the failure to share information being in the co-regulatory environment is a mutual responsibility, isn't it?

[169] **Mr Howells:** It is.

[170] **Lee Waters:** Because the evidence we had from Steve Jones, the chief exec of Tai Ceredigion, says that he feels there's been a failure of information on your part to share information about the situation at Tai Cantref, and the stakeholders feel very much in the dark. Can you explain why that has been?

[171] **Mr Howells:** I think that's a different set of arrangements where—

[172] **Lee Waters:** It's about transparency and sharing information, isn't it?

[173] **Mr Howells:** We have a responsibility to share information in relation to the businesses that we're identifying, the businesses that we're regulating. I think what Steve was talking about was a broader interest of other organisations in the operation of housing associations in their general vicinity, which I think is a different example of sharing information—

[174] **Lee Waters:** No, I think it's—

[175] **Mr Howells:** I would expect in due course for us to have a similar process that we had with regard to Family, with regard to the learning from the Tai Cantref case.

[176] **Lee Waters:** Well, we very much look forward to that and we'll be taking a close interest, but, in terms of the specific example he gave, he talked about, and we heard evidence from Wales & West that in this particular case—and I know we're not going to dwell on this today; we're going to look at this again, but it's an interesting example—where one housing association was given advanced warning that the was 'trouble at t'mill', that others were given a week to tender, to apply for it, and, having applied, were then given zero feedback about why they weren't successful. So, in terms of the transparency you say that has been lacking from the other side in this co-regulatory report, there seems to be some issues on your side here too.

[177] **Mr Howells:** My understanding was that all sorts of briefings and discussions took place between Cantref and their neighbouring associations, and then I think part of that feedback loop that he was referring to was actually feedback from the Tai Cantref board, rather than from the regulation team.

[178] **Lee Waters:** No, I think he was quite clear in his evidence that they had no feedback from the regulator—from the Welsh Government—about why their bid was not successful.

[179] **Mr Howells:** But that bid was being considered by the Tai Cantref board, not by the housing regulation team. We—

[180] **Lee Waters:** But we know, from Wales & West's evidence, that the Welsh Government was heavily involved in arranging that—

[181] **Mr Howells:** We were heavily involved in making sure that effective arrangements were put in place to address the issues within Tai Cantref. We were not responsible for considering proposals that were put forward to the Tai Cantref board. We were exercising significant oversight of that process because of the concerns expressed by the lenders, which we shared with regard to that particular case.

[182] **Mr Williams:** Steve was disappointed that he didn't get any feedback from the Tai Cantref board once they'd made their decision not to choose them.

[183] **Lee Waters:** Well, he didn't hear back from anybody. I think that's what he was disappointed about. In terms of your point, pointing at the sector,

where the failure to share information is a significant factor in failure, it seems to me that there are some issues for the Welsh Government to address here too.

[184] **Mr Howells:** For all of us, but I think that the point that we're making in that paper is that it's one of the core challenges of the co-regulation approach: that we need to find a way of encouraging and supporting boards to be open with an external organisation when human nature would always suggest that we're all above average and excellent, and sometimes we're inviting boards to address less than excellent performance, which is tricky.

[185] **Lee Waters:** But going back to the first question that I asked, of what the purpose of regulation is, it seems to me that—. I have some sympathy with the position that the Welsh Government is in, in that you don't want to be meddling, but also you feel, when things are going wrong, the impetus to provide the role of midwife to stop things getting out of hand. Now, Steve Jones, in his evidence, also said that there were difficulties in Tai Cantref in 2007, when a merger with another landlord was on the cards, but that was prevented because of ministerial intervention. Is that correct?

[186] **Mr Howells:** I heard that evidence and I asked my colleagues to check our records to see whether we could find any indication along those lines. I have not been able to find any indication along those lines. I am aware of the problems encountered by Tai Cantref in 2007. I think the other suggestion that was made was about preventing a merger. I'm not aware that the—. My assessment of the sort of issues that were giving cause for concern at that time was that they weren't the kinds of issues that were likely to lead to a requirement for a merger. The Welsh Government did cease funding the Tai Cantref development programme at that time. So, firm action was taken by the Welsh Government on the basis of regulatory assessment. That's my understanding of what happened.

[187] **Lee Waters:** Do you feel that that intervention is what spooked the market, if you like—that triggered the action that then ultimately precipitated the collapse?

[188] **Mr Howells:** No, but I think that we and the lenders would have been aware of that history when the problems of 2015 presented themselves.

[189] **Lee Waters:** As I say, we're going to come back to this another time, but just finally on this, do you feel, in hindsight, that you intervened too

much or you intervened too little in that case? Because clearly, it wasn't a happy outcome.

[190] **Mr Howells:** The Tai Cantref case?

[191] **Lee Waters:** Yes.

[192] **Mr Howells:** I thought about this long and hard. We thought about that long and hard before intervening. I'm happy that we took an appropriate judgment based on the evidence presented to us, which was of concern—significant concern—against a backdrop of earlier concerns.

[193] **Lee Waters:** So, *je ne regrette rien.*

[194] **Mr Howells:** *Non.* [Laughter.]

[195] **Lee Waters:** Okay, thank you.

[196] **Nick Ramsay:** Do you think that there are broader issues here about the extent to which an arm's-length independent regulator is needed? Have those lessons been learnt, do you think?

[197] **Mr Howells:** It's possible to conceive of a system where something very similar happens completely at arm's length from Government. I think that the change that we made to the regulatory advisory board last year brought in a strengthened independent element to that board. I think the system in Wales benefits from having as slick an operation as we can manage without needing separate headquarters and corporate support functions that are provided as part of the current arrangements in Wales, but it's something that we've got to keep under review.

[198] **Nick Ramsay:** Great. Rhianon Passmore, briefly, before we move on.

[199] **Rhianon Passmore:** Very briefly, going back to my earlier question, do you think, (a) that if we'd intervened earlier in any extent, this could have been negated, and will the new regulatory framework assist in this situation not occurring in the future?

15:30

[200] **Mr Howells:** In relation to Tai Cantref, the fact that there were

concerns expressed over a long period and that elements of the issues brought to the surface in 2015 looked as if they were similar to some of the concerns that we expressed earlier does suggest that, possibly, things could have been different, but we are where we are.

[201] **Rhianon Passmore:** Okay. So, the new regulatory framework that we keep talking about will mean that the situation in the future will be strengthened and negate this occurring.

[202] **Mr Howells:** Strengthened, but we are dependent on boards being prepared to share, and—

[203] **Rhianon Passmore:** So, therefore, is what we've got strong enough and rigorous enough?

[204] **Mr Howells:** And, collectively, this is a co-regulation system. Collectively, we've got to address those issues in as effective a manner as we can.

[205] **Rhianon Passmore:** So, basically, have you the teeth that you need, bearing in mind the co-constructive model?

[206] **Mr Howells:** We think we've got—. The new system gives us extra teeth.

[207] **Nick Ramsay:** More teeth.

[208] **Rhianon Passmore:** Okay. That partly answers it. Would you like even more teeth?

[209] **Nick Ramsay:** More teeth, not sharper teeth.

[210] **Mr Williams:** What I would like is to see how this plays out for 12 months, 18 months, to see whether or not this changes the situation right across the sector, before, we throw it away and try something else. I think that I'd like to try that.

[211] **Nick Ramsay:** Mohammad Asghar.

[212] **Mohammad Asghar:** Thank you, Chair. My question will be regarding the governance of the housing associations. I will read two quotes. One is

from Merthyr Valleys Homes, and they say,

[213] ‘It was difficult to ensure that the Board always had the right skills and expertise to carry out their role.’

[214] That is that. And the second one was from Helen White. She said, in her written evidence, that,

[215] ‘The quality of governance at some Housing Associations is of concern’.

[216] Quote closed. What do you think about this, and how are you going to address these concerns?

[217] **Mr Howells:** I feel like I should always agree with the chair of the regulatory board. We agree that the standards of governance in certain associations are not at the level we would expect them to be. That’s something that we will be considering as part of the new regulatory framework, and we’ll be coming up with judgments on that matter. To some extent, those issues and challenges reflect the difficulty of attracting the right kind of skill set, and what we see at the moment is different associations having different success rates in their ability to attract the right mix of people across the board. These are very interesting organisations involved in, sometimes, quite a variety of activities, which, in my experience, are all adding value in some way to their communities and supporting the house-building agenda. But, we ask a lot of people to give of their time, and to ask searching questions in relation to complex issues, and I’m not surprised that some organisations have found it difficult to get the right mix, and we need to think about what the sector as a whole can do to make it more likely that we have successful boards. I think the initiative that CHC takes on training board members is an important part of that equation. The recent CHC governance conference, which was attended by the regulation team, is a mechanism where we can share with board members our reflections on the process, and hopefully raise their skill levels. It’s a continuing challenge to get the right kind of people.

[218] **Mr Williams:** And it depends on the activities that the housing association is doing. I mean, if the housing association is diversifying into social care, they really need that sort of skill on their board. If they’re getting into a bond, for example, they need a corporate financier in there as well. Quite often, boards can underperform, not just because of the individuals,

but because of the behaviours you see. You see the ‘gang of pals’ mentality—people who are just getting along and being far too cosy—or maybe dysfunctionality, where they’re not getting on. And sometimes you can even have a board that is full of high-quality people who have become far less than the sum of their parts because they’re not working properly together. And what we try and do by focusing on boards is board observation, and sometimes it can be as simple—or, I say ‘simple’; it’s not simple—as trying to make a point about the behaviours that you see on a board, and not just about the skills, although the skills are important as well.

[219] **Mohammad Asghar:** The thing is, you just mentioned that poor governance already has cost—serious complex cases in these housing departments and that has a financial cost and that is a burden on, eventually, the people who pay the rent. They pay the cost of that. So, will you learn lessons? How are you going to tackle this in the future?

[220] **Mr Howells:** I mentioned the importance of going through that lessons-learned process. As it happens, Merthyr Valleys Homes is another example where we’ve had a session with associations about the lessons learned from the earlier difficulties faced by that organisation. I think Mike Owen mentioned in his evidence that we have a formal process of reflecting on cases where things haven’t worked out as we would have wished and that will be an ongoing part of our approach. The regulatory board is committed to conducting a further review of governance arrangements during the course of this coming year. So, there are opportunities for us to reflect on these difficult cases.

[221] **Mohammad Asghar:** Does the Welsh Government intend to change its position on the payment of board members, and if not, why not?

[222] **Mr Howells:** When we consulted on that matter a few years ago, we got a very mixed response from the sector, and I understand that. Some people feel very strongly that that is the right answer and others will feel equally strongly that it is the wrong answer. That’s where we are at the moment. I mentioned the review of regulation, which the board is undertaking. My guess is that that’s one of the questions that will need to be considered as part of that review. There’s also a question about the way that we will respond to the changes being introduced as a result of the ONS reclassification. There are important matters that we’re having to attend to as a result of the interest expressed by the ONS. We haven’t quite completed that process yet, but once we have, it will be important for us to reflect on

whether we need to change the way we conduct some of our business in order to reflect that change in arrangements.

[223] **Nick Ramsay:** Okay, thanks. A couple of supplementaries: first of all Lee Waters, and then Mike Hedges.

[224] **Lee Waters:** Yes, we too have heard mixed views on whether or not boards should be paid, but we've had a far more consistent view on whether or not boards should have the discretion to make that decision for themselves. Giving them that discretion—is that something that is being considered?

[225] **Mr Howells:** Yes.

[226] **Lee Waters:** Okay, thank you.

[227] **Nick Ramsay:** Mike Hedges.

[228] **Mike Hedges:** You've talked a lot about board of governance. Housing management—the management inside the housing association—may on occasion play a more major part in the resilience of the organisation than the way it's run: if you have people who don't manage to collect rents, for example, or who don't manage it effectively in a whole range of other ways, which are outside the decisions of the board. Do you have any concerns about the management of housing associations? And if you did, how would you act?

[229] **Mr Howells:** My concern is that we were a bit one-dimensional in our previous responses in only referring to governance as being where things can go wrong. Clearly, things can also go wrong with the management of these organisations. These are complex organisations and housing management, as you will know, is a non-straightforward task where we need people with serious degrees of skill. The role that organisations like the Chartered Institute of Housing play with regard to training in that area—. We've got a lot of relatively small organisations in Wales, if you compare Wales to the English picture where there are far more large organisations. In my experience, smaller organisations always find it a challenge to get the right kind of support on training, but that's why it's important that we've got all-Wales arrangements to make it more likely that the skill levels that we would like to see are in place across all organisations.

[230] **Mr Williams:** But you are right, and it links into the transparency agenda again. We've just, over the last 12 months, hand in hand with the sector, initiated some value-for-money indicators and those are indicators on the management of those organisations—exactly the sort of things you were talking about: arrears per unit, cost of repairs per unit and being able to compare across not only the sector, but against benchmarks as to the type of organisation they are, whether they're a large LSVT or small and traditional, for example. In a way, that gives an early warning signal, especially as that develops. I know it's a bit new, but as it develops we are able to get a time series and are able to see the detail, and I think that will help.

[231] **Mike Hedges:** And also administrative costs. This is 15 years out of date, what I am going to say now, so you may well say that things have changed, but my understanding was that there were a number of housing associations whose management costs were running at three or four times those of local authority housing bodies.

[232] **Mr Howells:** I suspect that that variation occurs in both directions still, and that's one area where we need to up our game in order to provide objective challenge, based on real indicators.

[233] **Nick Ramsay:** Lee Waters.

[234] **Lee Waters:** You mentioned the skill sets of the boards. I was just wondering about the skill set on the other side of this equation, which is in the regulatory team. Are you satisfied that the skills mix is the right one at the minute?

[235] **Mr Howells:** That's an evolving picture. I'm pleased that we have been able to bring some new sorts of skills, including finance experience, on to the regulation team. I'm also pleased that I have been allowed to recruit to that team from outside the Welsh Government. You will be aware that there are very serious controls on our ability to recruit from outside because of the controls on our running costs, but the senior management of the organisation has agreed that the housing regulation team is an area where we can recruit externally because of the need to bring in a variety of skills, which I think is essential if we are going to provide the challenge that we need to do.

[236] **Lee Waters:** That's an ongoing arrangement, is it? It wasn't just a one-

off.

[237] **Mr Howells:** It's an arrangement for the time being. You will have heard from the Permanent Secretary that we are going into interesting, uncharted waters. But, for the time being, for the recruitment that Ian is currently responsible for, we are going to the external market to attract a range of skills.

[238] **Mr Williams:** It's a specialist skill, and it's vital that we are able to—even if we are only able to bring in people from—. By finance, we mean banking finance, as opposed to an accountant, for example. It is about bringing them in, even if it is only for two years, to be able to teach and to add that credibility. It's not just banking finance. It's development skills. Bringing those into a regulator gives the regulator some credibility. I think that if it is just a group of junior civil servants, I think its credibility certainly won't be as strong. However, I think you also need some civil servants in there to keep the corporate memory going. I think it's a balance. Right now, especially when we have another advert out for another external person—only for two years, but that gets us somewhere—I think it's going in the right direction.

[239] **Lee Waters:** But, given how emphatic you are about the need to recruit outside the civil service, it is not satisfactory that you have to negotiate this on a case-by-case basis, is it?

[240] **Mr Howells:** We are in a good place at the moment.

[241] **Lee Waters:** That wasn't my question.

[242] **Mr Howells:** We don't know what the system is going to be in a year's time, and we don't know what our recruitment needs are going to be in a year's time. At the moment, we have got a vacancy that—

[243] **Lee Waters:** Well, you said that, as a matter of principle, you think you need to recruit outside the civil service. So, you know that much.

[244] **Mr Howells:** Well, what we need is the right mix of skills. At the moment, we weren't able to access those skills within the organisation. The Welsh Government is a big place. Occasionally, we are fortunate in finding people who do have the requisite skills that happen to be—or who may have had a career change. So, I would never say 'never'.

[245] **Lee Waters:** But the burden of proof is on you, is it? You first have to go through the process of seeing whether there is anybody in-house who will do the job, and then you have to prove there isn't in order to go outside.

[246] **Mr Howells:** Well, the burden of responsibility is on me to make an assessment of what our needs are, and then to—

[247] **Lee Waters:** And you have to prove that there is nobody suitable inside first, do you?

[248] **Mr Howells:** That is part of the current arrangement, yes.

[249] **Lee Waters:** Okay. That's a little ambiguous. In terms of the future arrangement, that's a 'no'.

[250] **Mr Howells:** All I am saying is that we don't know where we are going to be in 12 months' time.

[251] **Nick Ramsay:** I think you have made that point now several times—that the undiscovered country that is the future is still 12 months away. Rhianon Passmore, did you have some questions on risk?

[252] **Rhianon Passmore:** I was going to pursue this very briefly, but I think we have almost exhausted it as a conversational question. In terms of how important this has been as a theme to previous witnesses, in terms of having that resilience in the team, which is in such a critical position around the £2.5 billion that has expended, you feel that you are there now—great. So, in terms of the future, if you had a crystal ball, are you saying that you would like to have more flexibility? Is that already in your gift in terms of being able to go outside of the pool of current civil servants? Surely, bearing in mind the importance of this sector—economically, as well as community-wise—is that not an important part of being able to articulate what you need?

[253] **Mr Howells:** I can only explain where we are today. My responsibility is to satisfy myself that the right mix of skills is there. I am part of an organisation that has rules governing these kinds of things—you know, the civil service—and the Permanent Secretary is responsible for the recruitment policies of the organisation as a whole, and that has to take into account a whole range of factors of which my requirements are only one.

15:45

[254] **Rhianon Passmore:** Okay, that'll do. Thank you.

[255] **Nick Ramsay:** Okay. Neil Hamilton.

[256] **Neil Hamilton:** You referred a moment ago to the reclassification of housing associations by the ONS into the public sector, which clearly poses some challenges for the future and possibly in relation to access to finance in particular. Welsh Ministers have said that they intend to take measures to restore the sector to private-sector classification. Can you give us some idea of what measures of deregulation are likely to be required in order to achieve that objective?

[257] **Mr Howells:** Our system is not entirely dissimilar to the regulatory system in England. They've had to deal with issues such as disposal of stock, agreement to mergers—

[258] **Mr Williams:** Removal of members and officers and golden share issues around local authorities.

[259] **Mr Howells:** So, it's the same list. I think it's the Housing Act 1996 that governs the regulations system. So, the ONS has identified very similar issues with regard to the system in Wales.

[260] **Neil Hamilton:** Is that likely to require legislative intervention to achieve this?

[261] **Mr Howells:** It could. It did in England.

[262] **Mr Williams:** And in Scotland—we're working very closely with our colleagues in Scotland and Northern Ireland to learn from each other, to move together, so that we're maximising the skills that we have.

[263] **Neil Hamilton:** So, they have the same problems that we have.

[264] **Mr Williams:** Yes, they do. Scotland is almost identical, but with Northern Ireland there's a slight nuance.

[265] **Neil Hamilton:** Right, I see. We've mentioned some of the housing associations where there have been problems over the years. To the

untutored eye, that might indicate that we need to be more regulatory rather than less, in a sense. So, are there areas of regulation where the Welsh Government needs to enhance its oversight and control, do you think, in spite of what we've just said about the need for deregulation?

[266] **Mr Howells:** We need to stay on top of our game. My view is that the business of housing associations gets more complicated year on year and therefore the challenge of adding value to the oversight provided by boards gets more complicated. We've got to be pretty sharp to be engaging effectively, monitoring and then feeding back to the system with a view to keeping that focus on what the boards are doing rather than what we say. That's an important balance that we need to carry on talking about.

[267] **Neil Hamilton:** When you say things are getting more complicated year by year, is that because more and more housing associations are tempted by the road to diversification?

[268] **Mr Howells:** That's one of the complications. New financial vehicles that offer jam today pain tomorrow need to be scrutinised very carefully by boards. New construction techniques need to be scrutinised very carefully. And, we're not building enough homes. The housing associations are under pressure to respond to that reality and I guess that might tempt some into pushing the boat out too far.

[269] **Mr Williams:** We will need to ensure as we go through this process of consultation that we don't just throw everything away as well. On consents, on asset disposals, yes, we will almost certainly have to give away our power of consent. However, it doesn't mean we have to give away our power to be expected to be notified of any asset disposals. Certainly, some of these hard powers are going away, but those soft powers that we introduced in January on the ability to be able to effectively downgrade an organisation very publicly if they were to do things once they've pre-notified us, I think—. So, hard powers might go down a little bit, but soft powers have gone up enormously.

[270] **Neil Hamilton:** What's the timetable then, do you think, for coming forward with a comprehensive package of whatever proposals might be necessary?

[271] **Mr Howells:** We've made it very clear to the sector that we will do what needs to be done as soon as we can do it. The decisions about the legislative

timetable are outside my control—

[272] **Neil Hamilton:** I appreciate that, but, I mean, at least how long do you think it's going to take you to ask us to do what you think needs to be done?

[273] **Mr Howells:** A few months.

[274] **Mr Williams:** Our derogation with the Treasury lasts until next March.

[275] **Neil Hamilton:** Right.

[276] **Mr Williams:** I think that that puts an onus on us to get on with it.

[277] **Neil Hamilton:** Yes, right.

[278] **Nick Ramsay:** Mike Hedges, then Lee Waters.

[279] **Mike Hedges:** Two very quick questions. On non-traditional housing, we've had problems in the past, haven't we? Steel houses, for example. Local authorities built steel houses, which had problems. There's a whole range of other houses that have been built with non-traditional materials—things like Wimpey no-fines. Surely, the advice you should be given to housing associations is: build traditional houses. They may cost more, but the likelihood of their being there in 100 years' time is far greater than some of these new ideas. I remember the high alumina cement, which was a brilliant idea, except that people hadn't worked out that we put aluminium into cement and, over a period of time, the cement will actually eat it away. So, instead of adding strength, you had holes.

[280] **Mr Howells:** I was visiting some homes in Rumney in a few months ago, where we are removing the wool that was put in the cavity walls to insulate the homes—the soaking wet wool, which is being removed, because it was simply not fit for the purpose. I would not go as far as to say that we should not innovate. I think housing associations do need to be reassured that the solutions they come up with offer long-term housing solutions, but I wouldn't go as far as to say, 'Let's not innovate and see what new technology can deliver', including off-site construction and modular solutions, though I understand the risk that you're highlighting.

[281] **Mike Hedges:** Well, we knew them under another name, though, didn't we, the off-site and temporary? They were known as prefabs, and there were

problems with them as well.

[282] The last question I've got is: as the position goes at the moment, do lenders think the Welsh Government, at the end of the day, accept final liability for housing associations? And if it becomes outside Welsh Government control, will they not think that they have greater risk? I mean, do they see us as the lender of last resort, if a housing association goes bankrupt?

[283] **Mr Howells:** No.

[284] **Mike Hedges:** So, you would let a housing association close.

[285] **Mr Howells:** They shouldn't see us as the borrower of last resort. I wouldn't want to contemplate a housing association failing. I would want to focus on the opportunity to find solutions somewhere within the sector in Wales, which tends to be the way these things are arranged.

[286] **Nick Ramsay:** Lee Waters.

[287] **Lee Waters:** The first session we held in this inquiry was with tenants to try and test the idea that tenants should be at the heart of the regulatory process, and I think it's fair to say there were mixed views. We've since had evidence from Mike Wiseman, who is the chair of the Tenant Advisory Panel, who said that when TAP did play a role—obviously, you've put an end to that—it had found it very difficult to get its voice heard at the regulatory board meetings. But, from what I understand of the new arrangement, it's a far less granular one. The TPAS is going to have far less of a direct tenant voice and far more taking a broader picture to be a facilitator. So, how can you make sure that the tenants' voice is going to be effectively heard within that system?

[288] **Mr Howells:** I think that's always an important challenge. I think it's encouraging that the chair of the regulation board is chairing the working group, trying to ensure that we've got a more effective mechanism for enabling tenant perspectives to be fed in. I think it looks like a really good team has been assembled to grapple with that issue. There must be a greater role for social media in the way that we do that. Let's see what we come up with. Let's see if we can find some innovative ways of making it easier for people to express opinions.

[289] **Lee Waters:** But does the new model have the welly for the tenants' voice to be heard and to challenge?

[290] **Mr Howells:** Well, it's got the chair of the regulation board. She's an important person, and the Minister will want to know, if it doesn't happen, why. So, I think that's a—. And it's central to the remit of the new tenant organisation. So, I think that, hopefully, all those factors will—

[291] **Nick Ramsay:** I think Ian Williams is trying to come in.

[292] **Mr Williams:** Only to explain that TAP was set up to feed insight and intelligence about the lived experience of tenants to the RBW, the Regulatory Board for Wales. The Regulatory Board for Wales had gone down to about three or four people in it. It wasn't very diverse as a group. They were all very good individuals, but it was a very small group to represent 140,000 tenants. The proposal made by TPAS, where it would, admittedly, have a large use of social media channels as well as large groups, and testing and triangulating these very high tenant satisfaction numbers that every housing association reports—. In testing that it was, in a sense, putting a mirror to it and saying, 'Is this the lived experience?' I think it's worth a go. It's worth a go for 12 months, and we'd put Mike—Mike Wiseman, who you've met—and Helen [correction: Helen White] onto this 'making it work' group, and if it doesn't work in 12 months, I can assure you that RBW will say, 'Right, let's try something else.'

[293] **Lee Waters:** Okay. So, to make it work properly there needs to be transparency and there needs to be data.

[294] **Mr Williams:** Yes.

[295] **Lee Waters:** We've heard quite a bit about the Scottish model where the data are far more freely available, and it allows people to make better informed judgments. Is that a model that you're considering for Wales?

[296] **Mr Howells:** Yes, I think that's one of the areas where we're deficient at the moment, and we should be developing our data sets to make it more straightforward for tenants in one locality to be able to compare and contrast. I also think we should put more of a focus on tenants locally, rather than trying to make sense of the Wales picture, which always strikes me as a more diffuse, less immediate issue for people concerned about their homes to get their teeth into.

[297] **Lee Waters:** Okay, thank you.

[298] **Nick Ramsay:** Rhianon Passmore.

[299] **Rhianon Passmore:** Thank you. In regard to the evidence that we've received, I think in particular from Mike Wiseman, it was addressed that that voice didn't get heard, as has been previously said by Lee Waters. I was struck by the fact that there didn't seem to be any real mechanism coming forth so that we could get the tenant's voice at the heart of organisations. Every single one of the organisations that came to speak to us said that the tenant's voice was at the heart of the organisation. What were the very great models of diversified organisations that we have across Wales? For me, I'd like to understand whether there is any contrast in any model of contrasting how effective those different organisations are across Wales, in terms of the tenant being at the centre of that voice, bearing in mind that there are so many different representative boards, in terms of whether they have a quota or whether they don't have a quota. It seems to me a very, very inconsistent picture across Wales, whether you've got co-operative and mutual. One organisation I thought had 100 per cent fixed rate, in terms of the previous issue around risk. So, it seems to be a very, very mixed picture, and it's not good enough to say that they are all autonomous and that they are all very much of their own area. So, in regard to my actual question—I know it's a bit of a long-winded one—how can you reassure me, for instance, that we do have the tenant voice at the heart of our organisations?

[300] **Mr Howells:** I think all I can do to reassure you is that it's at the heart of the regulation system that part of the challenge that the team provides to boards and senior management teams relates to their engagement with tenants. I understand why you call it inconsistent—you could call it rich and varied [*Laughter.*]—but these are different organisations, and we need to be challenging them to identify what works for them. I'm not sure that I would want to say there was one right answer. In fact, I do not thing there is one right answer.

[301] **Rhianon Passmore:** No, but the opposite is that there is a huge difference in terms of what's being offered across Wales, and unless we get that data set, so that our tenants can actually compare and contrast, we're not getting a clear picture—

[302] **Mr Howells:** I agree that providing them with the ammunition to

challenge and locate where they are in the greater scheme of things is an important aim for the regulation team over the coming period.

[303] **Rhianon Passmore:** I suppose my concern underneath all of that is that the tenant, for instance, in one particular part of Wales, compared to a tenant in a different part of Wales, has got a very different offer, and I suppose it's not that it's variable, it's the fact that one could be much more inferior than another.

[304] **Mr Howells:** But, on the other hand, the opportunity if people do want to participate—I think this is a sector where you can make a real difference.

16:00

[305] **Mr Williams:** I don't believe we've got a single housing association without tenant representatives on it, including the Regulatory Board for Wales—that has a tenant representative on it. But you're right about facilitating those data in a clear and easy way that people can make sense of, because there's an enormous amount of data out there. And it probably is in the public domain, it's just that it's difficult to access.

[306] **Nick Ramsay:** We are very nearly out of time, but I just wanted to pose the question to you on senior executive pay. Does the Welsh Government regard the level of chief executive pay as appropriate, and is there a clear link between that pay and the performance of individual housing associations?

[307] **Mr Howells:** This is a question for individual boards. I think that, broadly speaking, there does seem to be a correlation between the size of organisations and the remuneration awarded to the chief executive. But that assessment needs to be made by boards or remuneration committees, based on professional advice, and the regulation team tends to take an interest in those matters and to ensure that that process is robust.

[308] **Nick Ramsay:** So, you think that that should be left to the board and it's not something the Welsh Government would have a particular view on.

[309] **Mr Howells:** I think you should continue to ask hard questions, but I think it's right that, in line with the governance structure that we have for housing associations, that is a key responsibility for board members

[310] **Mr Williams:** And the Office for National Statistics reclassification issue might make—might, not definitely—instructioning boards to give certain pay levels rather difficult.

[311] **Nick Ramsay:** Okay. We are out of time, so can I thank our witnesses, John Howells and Ian Williams, for being with us this afternoon? That's been really helpful. We will be providing you with a transcript for you to adjust any glaring inconsistencies that you might think are there. But thank you for being with us today.

16:02

Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd o'r Cyfarfod

Motion under Standing Order 17.42 to Resolve to Exclude the Public from the Meeting

Cynnig:

Motion:

bod y pwylgor yn penderfynu that the committee resolves to gwahardd y cyhoedd o weddill y exclude the public from the cyfarfod ac ar gyfer eitem 1 ar 28 remainder of the meeting and for Mawrth yn unol â Rheol Sefydlog item 1 on 28 March in accordance 17.42.

Cynigiwyd y cynnig.

Motion moved.

[312] **Nick Ramsay:** Okay, I propose, in accordance with Standing Order 17.42, that the committee meets in private for items 6, 7 and 8 of today's meeting, and item 1 on 28 March. Happy? Yes.

Derbyniwyd y cynnig.

Motion agreed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 16:02.
The public part of the meeting ended at 16:02.*

13/3/2017