



Levelling Up, Housing and Communities Committee

Oral evidence: Departmental Annual Report and Accounts 2023-24, HC 528

Monday 29 January 2024

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Members present: Mr Clive Betts (Chair); Bob Blackman; Ian Byrne; Andrew Lewer; Mrs Natalie Elphicke; Tom Hunt; Mary Robinson; Nadia Whittome; Mohammad Yasin.

Questions 1 – 133

Witnesses

I: Sarah Healey CB CVO, Permanent Secretary, Department for Levelling Up, Housing and Communities; Matt Thurstan, Chief Finance Officer, Department for Levelling Up, Housing and Communities; Catherine Frances, Director General, Local Government, Resilience and Communities, Department for Levelling Up, Housing and Communities; Joanna Key, Director General, Regeneration, Housing and Planning, Department for Levelling Up, Housing and Communities.



Examination of witnesses

Witnesses: Sarah Healey, Matt Thurstan, Catherine Frances and Joanna Key.

Chair: Welcome, everyone, to this afternoon's session of the Levelling Up, Housing and Communities Select Committee. This afternoon is our annual session with the Permanent Secretary, who is the senior civil servant in the Department, and her most senior officials, who are here with her. It is a time to ask questions about how the Department is operating, whether it is fulfilling its objectives, and what problems there may be.

Welcome, Permanent Secretary. We will come over to you in a second to introduce yourself and your colleagues. I will just ask Committee members to put on record any interests that we may have and that are relevant to this. I am a vice-president of the Local Government Association.

Tom Hunt: I employ two councillors in my office.

Q1 **Chair:** I am sure that other colleagues will have interests that they will have declared at previous sessions, so they will be on the record anyway. Permanent Secretary, could you introduce yourself and your colleagues who are with you this afternoon?

Sarah Healey: I am Sarah Healey. I am the Permanent Secretary at the Department for Levelling Up, Housing and Communities, and have been since 7 February last year.

Joanna Key: I am Joanna Key. I am director general for regeneration, housing and planning. I have been in post since 1 September last year.

Catherine Frances: I am Catherine Frances. I am the director general for local government, resilience and communities. I have been in the Department since 2019.

Matt Thurstan: Good afternoon. I am Matt Thurstan, chief financial officer. I have been here for three years.

Q2 **Chair:** Thank you all very much for coming this afternoon. I will just begin with a few matters to do with the relationship between the Department and the Committee. We have had concerns, which you are well aware of, because we have been fairly publicly critical about them, about the lateness of the Department's responses to our reports, which are supposed to be received within two months from when those reports are published. It is a pleasant surprise to find that we have had the Department's response to our report recently about local audit, which has come within the two-month time period. It is very welcome and appreciated. Can we get an understanding now that that is going to continue for future reports that we have done?

Sarah Healey: Thank you very much for raising this. It gives me an opportunity just to reiterate my apologies for the number and extent of



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delays to responses to your reports from my Department in the past. The Secretary of State has also made very clear that we recognise that this is not good enough and needs to change. We are both very committed to meeting deadlines in future. I am glad that it was noted that the latest response was on time. I do not anticipate any delay to our forthcoming response to the Committee's report on council tax.

You wrote about this to the Cabinet Secretary and asked him to look into it. I just wanted to reiterate that I know that you were very keen that I did not mark my own homework on this particular matter, and so it is completely understandable why you wanted to write to the Cabinet Secretary on it. I wanted to make progress in responding to a letter while the Cabinet Secretary was on medical leave, which is why we followed up at that time. Now that he has returned, I have updated him on the work that we have been doing here. He has asked to be kept informed of progress and the timeliness of the Department's responses. I hope that that reassures you that we are not operating wholly independently in addressing this.

In response to your overall question, I am glad that we have managed the latest response on time. I am absolutely determined to achieve that in future and do not anticipate any delay with the next one that is due.

Q3 Chair: That is welcome. We will be monitoring that going forward. Slightly disappointingly, we have now observed that, while it has also been the convention that the Department provides written evidence when we start an inquiry, we have heard nothing from you at all on two recent inquiries.

Sarah Healey: My understanding is that we have submitted evidence on Oflog. There was also one on children, young people and the built environment.

Q4 Chair: Yes, and disabled persons' housing as well.

Sarah Healey: On children and young people, Ministers took the view not to submit written evidence, but are very happy to make themselves available for oral evidence. I am afraid that I do not have any update for you on disabled people's housing, but I can follow that up.

Q5 Chair: On children and the built environment, is that because the Departments could not decide between themselves who was responsible for this?

Sarah Healey: There certainly was not an issue with internal responsibility.

Q6 Chair: No, between Departments.

Sarah Healey: Not as far as I know, no.

Q7 Chair: Which Department is responsible?



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Sarah Healey: It will probably be joint responsibility between us and the Department for Education.

Q8 **Chair:** Have you started talking to the Department for Education about the issue?

Sarah Healey: Not that I am aware.

Q9 **Chair:** It is interesting to see the effect we have already had with our inquiry.

Sarah Healey: I am very happy to pick that up with my counterpart at the Department for Education, but we have not yet discussed it.

Q10 **Chair:** It would be helpful to have some joined-up approach, because, from the evidence that we have already had, it is an issue that affects several Departments, and one that no doubt we will be raising when we eventually get to our report on the issue.

You also said, when we raised concerns about lateness of reports and relationships between the Committee and the Department, that you were getting recruitment under way for a dedicated resource within the Department to act as a central point of contact for the Committee. Has that happened?

Sarah Healey: Yes.

Q11 **Chair:** The dedicated resource has not made any contact with our Committee staff at all.

Sarah Healey: I will follow that up, but we have been recruiting to that team, and my understanding is that they have been in touch with the Committee far more than they have been in the past.

Q12 **Chair:** You previously told us that you were going to ensure that there was going to be regularity and seniority of discussions with the Committee Clerk, which has not happened either.

Sarah Healey: I am very happy to follow that up. I will let you know what is happening with it immediately.

Q13 **Chair:** Hopefully, everything will be moving forward smoothly in the future. One thing that has been raised with us is whether the requirement to respond within two months should be part of the ministerial code.

Sarah Healey: I really do not think that the ministerial code is for me, I am afraid. I might have some views on it, but they are definitely not ones that it is appropriate for me to share.

Chair: We might raise that elsewhere in that case.

Q14 **Nadia Whittome:** Why has ending rough sleeping been dropped as a priority outcome for the Department, despite your predecessor telling us that it was a core focus only last year?



Sarah Healey: The Department's responsibilities grew during the year 2022-23. In particular, the responsibilities for the Union were fully reflected in our priority outcomes for the first time. These were the first set of outcomes set at the beginning of a year when we published and set out the missions for the levelling-up White Paper. Therefore, a decision was taken, because we focus on five priority outcomes during the year, to merge the homelessness outcome into one of the others. It has not gone in terms of priority. These are very useful ways for us to guide and organise our work, but we have in no way reduced the resource that is dedicated to work on homelessness within the Department. It is more a reflection of the fact that the Department's responsibilities grew during that time.

Q15 **Nadia Whittome:** Why did you choose homelessness as the area to drop or merge? We are right in the middle of the rough sleeping accommodation programme, where numbers have increased massively. The number of people estimated to be sleeping rough on a single night in autumn 2022 compared to the year before rose by 26%, so why homelessness?

Sarah Healey: I absolutely understand the priority that needs to be attached to work on homelessness, considering those numbers. As I say, nothing has changed in terms of the resource dedicated to it. It was simply administratively better to do that, because we had expanded responsibilities that needed reflecting elsewhere. We tend to make small amendments to the priority outcomes, but none of the work of the Department has been dropped or downgraded as a result.

Q16 **Nadia Whittome:** Will you restore homelessness as a priority outcome in its own right, given that, as I just mentioned, 2022 saw the first official rise in rough sleeping numbers in four years?

Sarah Healey: We have yet to make that decision. Were we to do that, we would have to remove something else. It is important to reflect that we are always balancing how we describe the priority outcomes of the Department, but it does not necessarily mean that we are reducing the amount of resource and time dedicated to action on that particular policy area internally.

Q17 **Nadia Whittome:** Why did the Department not mandate proper data collection for the Homes for Ukraine scheme?

Sarah Healey: Which data collection are you particularly referring to? We collect quite a significant amount of data on the Homes for Ukraine scheme. We need to always balance the burdens that are placed on local authorities with regard to data collection when deciding what to collect as a mandatory data collection and what not. We have quite a substantial amount of information related to the Homes for Ukraine scheme. Is there a particular piece of data that you are concerned about?

Q18 **Nadia Whittome:** Yes. Homelessness, which is relevant to the last question, is one area where the Department has not collected data. There



are other areas, including spending. The homelessness one is particularly significant, given that, at the end of August last year, local authorities reported to the Department that 8% of households in England on Homes for Ukraine visas had been homeless or come within 56 days of being homeless. That data is incomplete, because local authority data returns on homelessness within that scheme are voluntary.

Sarah Healey: We have no reason to believe that the data that we have—the 8%—is in any way an outlier or not representative of the levels that are seen across the country. That is just a judgment about when you make data collection mandatory in order to balance burdens on local authorities with the amount of data that we need in order to oversee and manage the programme.

Q19 **Nadia Whittome:** Is it not a problem that the Department's decision not to mandate the collection of that data means that some local authorities are continuing to report on it inconsistently?

Sarah Healey: Fundamentally, we think that we have enough data overall in order to be able to understand whether trends in the homelessness of the Ukrainian cohort in the UK are changing. We do not think that the overall percentage that is reported on the basis of voluntary rather than mandatory reporting is not representative of the overall picture. Were it to change, we would want to have a look into why.

Q20 **Nadia Whittome:** You would not know if it had changed, because it is not mandatory.

Sarah Healey: We would, because there would be a change in the voluntary reporting. We would know how many local authorities that was. We have no reason to believe that that is in any way not representative of the overall picture. When I was in front of the Public Accounts Committee on this, we explained the basis on which we had had to balance data collection that is mandatory with that which is voluntary, because we were very conscious of the extra requests and burdens that we were placing on local authorities in following up that scheme.

Q21 **Nadia Whittome:** I know that there were problems with the data collection platform, which was thought to put an additional administrative burden on local authorities, and that then became confusing for local authorities. As I understand it, it was because of that issue that it was not mandated.

Sarah Healey: No, not entirely, though Catherine was responsible at the time, so she might want to reflect.

Catherine Frances: More recently, you may be alluding to elements or reports that have happened subsequently, but what is distinctive about the Homes for Ukraine scheme is that, because of the way that the data works, when somebody arrives in the country on that scheme, we know not only about them but about where they intend to go, because the data



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collection is so strong, and stronger than it has been historically, when people arrive in the country through different schemes.

Through our homelessness directorate, we also collect a suite of homelessness data, which is all from the Act and the legislation that went through. As you will know, that breaks down and subcategorises the people who are presenting homeless and in different categories to a much greater level of granularity than has historically been the case.

On your rough sleeping point, there is management information data that comes through, but there is also the annual snapshot, which is absolutely rock-solid. The next one will happen in February. That is quite a strong suite of data on homelessness and a strong framework on Ukraine as well.

I accept your point that you may have elements where you debate whether something should be mandatory or not, but it is quite a strong suite of data compared with how we often operate when we are dealing with public services and large numbers of people.

Sarah Healey: We did quite a lot of work with local authorities on improving the platform, and a lot of improvements are being made to that. It has enabled us to have, as Catherine says, a really good set of information available there. We decided not to make it all mandatory, and that is a judgment call.

Q22 **Nadia Whittome:** You said that you were not too worried about that data, but, as more sponsorship arrangements come to an end, the risk of homelessness increases, so what assessment have you made of that?

Sarah Healey: Just to clarify, what I said was that I was not concerned that that was showing a different pattern than the overall national position. It probably does represent a broad sense of the national position. We keep a close relationship with local authorities and with the cohort of Ukrainians. We have been very pleased at how well we have sustained some of those sponsor relationships and how well they have been sustained.

It has been clear that the continuation of thank-you payments, which we confirmed at the end of last year, has been an important factor in sustaining those sponsor relationships. We have also provided significant funding specifically for homelessness prevention for the Ukrainian cohort, as well as funding via the local authority housing fund, in order to support, plus help to allow local authorities support, Ukrainians in the UK to move into the private rented sector. We have taken a range of actions to try to ensure that that homelessness problem does not rise as sponsorship relationships come to an end.

Q23 **Nadia Whittome:** What mechanisms do you have in place to ensure effective co-ordination between Ministers and teams within the Department working on related areas? For example, responsibilities



related to housing are divided between a number of Ministers and two departmental groups.

Sarah Healey: We regularly meet with our Ministers as a team. Jo holds responsibility for housing policy across the Department and can make links between Ministers as necessary. Lee Rowley, as the Housing Minister overall, has oversight of the overall picture on housing. We have not experienced any issues or problems that we could reflect on with the splits of responsibility between Ministers for what is really a very significant and quite broad portfolio of activities, with two very large pieces of legislation going through at the moment.

Q24 **Mary Robinson:** You mentioned that, in deciding what information to ask for and whether it would be mandatory or voluntary, it was a judgment call. Could you give a steer on how you make those judgment calls and what criteria you are measuring against?

Sarah Healey: Broadly, one is looking at whether local authorities will be able to understand the homelessness position via other data collection. As Catherine said, we have good information about homelessness more generally that we would be able to rely on to see changes. It is a balance of considering the extra burden that you are placing on local authorities to do a data collection and how much you can reasonably ask to be mandatory.

Q25 **Mary Robinson:** Do they relate in any way to policymaking decisions?

Sarah Healey: We look at data when we are advising Ministers on making policy decisions, but it is not the case that we would necessarily change policy on the basis of what was mandatory or what was voluntary. For one thing, a majority of local authorities have decided to report on the voluntary bits of data, so we have a fairly good picture from it.

Q26 **Chair:** Just picking up on the issue of the fragmentation of responsibilities around housing, Lee Rowley is the Minister for housing overall. When you look at the split of responsibilities on, say, social housing, Baroness Scott is the Minister, but most social housing funding comes from Homes England, which Lee Rowley is responsible for. Fire safety is Lee Rowley's responsibility, except where fire safety is in the social rented sector. Even though they could be flats next door to each other, that is the responsibility of Baroness Scott.

Sarah Healey: Homes England has a very broad range of responsibilities within the Department, which stretch between building safety and, indeed, housing of all kinds and regeneration projects. It is always the case that we need to divide responsibility between the lead Minister on the relationship with Homes England and other Ministers who might take particular parts of the Homes England portfolio. That is the case there.

On social housing, I will ask Joanna to reflect further on her experience of working with both Baroness Scott and Lee Rowley. When she was in front



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of you recently, Baroness Scott set out that she maintains a very close relationship with Lee Rowley in ensuring that there is join-up between her portfolio on social housing and his overall responsibilities as Housing Minister.

Joanna Key: That is completely right. They have offices next door to one another. They are always talking about these issues that might arise. It is, in their minds at least, a very clear split. Baroness Scott explained that when she became in front of this Committee a couple of weeks ago.

Q27 **Chair:** As an overall point, the priorities of the Department change every year, so how can you monitor what trends there are or what progress has been made? Every year, it seems like you say, "Priorities are not being achieved, so we will change them next year", and try to be seen to be doing something else.

Sarah Healey: To be fair, you will see all of the priorities that we were monitoring the year before last reflected in the priorities that we have set out for this year's business plan, all of which have metrics sitting under them in our One DLUHC plan. Matt might be able to say a bit more about those metrics and how we monitor them on a regular basis.

Matt Thurstan: I am very happy to. Under each of the strategic objectives, we have a range of programmes that feed into those, which have not necessarily changed—AHP, the housing infrastructure fund, et cetera. They all group underneath each of our different groups, each one being led by a DG. They then look at their performance in a portfolio board. It all comes into a stocktake that we perform once a quarter with this exec team, and we take it to the non-ministerial board. There is quite a lot of oversight in terms of what the plan is, how the programme of work links up to the resources that we have allocated to deliver it, and the key metrics that indicate if they are on track. We are really trying to step up our game over recent years in terms of how we do that.

Q28 **Chair:** In terms of those key metrics down at director level, they have not changed over the years.

Sarah Healey: We have been a lot more rigorous in setting out metrics underneath those, in order to be able to track them year on year. Most of them are based on data that has been collected for some time.

Q29 **Chair:** So they have not changed.

Sarah Healey: No, not in all cases where they are part of the plan. We are constantly looking to improve on the data that we collect and set it out transparently.

Q30 **Chair:** Can we look at the timeline over the last five or six years in terms of how things have gone?

Matt Thurstan: In terms of data, we have done a lot of work in the Department on something called the delivery improvement plan—and you might have some questions on this—in terms of underspends and how we



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really make sure that we understand how the performance of our programmes links into our spend. We have done various stages of that. The next big push is on data and metrics. We have made some good progress already. There is definitely a bit more to do in terms of whether we really understand the key data and KPIs and how they feed into the spend areas. We have made a lot of progress in recent years.

Q31 **Chair:** But you have not got there yet.

Matt Thurstan: No, but we are making good progress. We have not got it completely nailed, but neither have many Departments. It is definitely the area of focus on the second stage of our delivery improvement plan.

Sarah Healey: The Department collects a large amount of information more generally, which we can use to look at performance. We have already talked about some of it at this hearing.

Q32 **Ian Byrne:** The annual Civil Service people survey saw a reported decrease in staff satisfaction in the Department, with 25% turnover of staff, which is the fourth highest across all Departments in the Civil Service. Does the Department have a problem with falling morale?

Sarah Healey: We have seen an uptick again in the people survey results this year. A lot of work has been done to address the fact that that fall happened at a particularly turbulent time in the Department's development. Turnover is down to 20% at our last measure, so we have definitely addressed some of the issues there.

Q33 **Ian Byrne:** What did you do to address that?

Sarah Healey: There is a whole range of things. Some of it is to do with a whole programme of activity that I and my team have been involved in, in terms of engaging people in what the Department is about, what its mission is, what it means and why it matters, so focused on internal communications. Some of it has been about pay, where we are constrained in what we can. The pay settlement for the Civil Service last year was the best one for a very considerable amount of time. Some of it is focused on line management capability and improving the way that line management works within the Department. There are a whole range of things that you can do in order to address the way that people feel about working in the organisation and how strongly they connect to it.

There are some fundamental structural issues that affect our turnover, one of which is the fact that pay at grades below the Senior Civil Service is differentiated between Departments, and DLUHC is towards the bottom end of the scales on some of that pay, so we do sometimes lose more junior staff to other Departments that pay more highly at those levels. That is a structural issue in Civil Service pay.

Q34 **Ian Byrne:** Are there any significant issues that you have identified that you want to bring to us? You touched on pay. Is there anything else? I was reading an article the other day about the ability to get housing in



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London. Civil servants were saying that they were finding it extremely difficult in terms of the cost of housing. Is that another issue that was raised?

Sarah Healey: That is related to the issues on real-terms pay in the Civil Service. When it comes to housing in London, I would point to the fact that DLUHC has a very large number of offices outside of London. There are many opportunities to work for DLUHC in different locations. We have established and grown our office in Wolverhampton recently and are part of the Darlington Economic Campus, and so it is increasingly possible to have a really successful, fulfilling career across Government Departments, as well as in DLUHC, by working in locations other than London.

Q35 **Ian Byrne:** I will touch on that in a second. The Department's headcount, which the Chair touched on before, rose by 10% last year. Has this improved the Department's productivity?

Sarah Healey: That 10% rise in staffing hides quite a lot of fluctuations to do with changing responsibilities, which I am going to ask Matt to take you through, because it is quite complicated.

Matt Thurstan: The 10% increase relates to average headcount between the two years. It depends slightly on the profile of where our headcount changes. The two biggest factors in terms of average headcount increase are, first, the machinery of Government change, which took place at the end of 2021-22—so we had only a quarter of that year in our headcount numbers, and a full year in the 2022-23 year that you are looking at—and, secondly, the Homes for Ukraine scheme, where, at its peak, we had 200 colleagues working on that. On an average basis, they are the two drivers.

The March 2022 versus March 2023 headcount has reduced, so we ended the year with slightly less headcount than we started. A big driver was something called Civil Service 2025, where we were exploring with Treasury how the Civil Service could reduce by circa 91,000 heads. At that point in time, we had to put recruitment controls in place while waiting to see what our targets would be.

We have had quite a lot of changes in headcount in our Department over the three years that I have been here. We always attempt to match it to the work that is coming in. We are not growing inefficiently. It always maps back to new programmes, new initiatives and new responsibilities. Overall, between those two years, we have had an efficiency, so we have taken on more work but reduced our headcount slightly.

Q36 **Ian Byrne:** You touched on the regional offices, Sarah. How successful have you been in supporting levelling up by growing your offices outside London?

Sarah Healey: We have certainly increased the number of staff we have based in offices outside of London.



Q37 **Ian Byrne:** Are they local staff or staff who have relocated?

Sarah Healey: The majority are local staff, but there are also staff who have relocated, and we see both as a positive. We do not think of staff who relocate from London to other parts of the country as not part of a places for growth strategy. It is very important to remember that civil servants who work in London might be from places all over the country, and that this is perhaps an opportunity to return to somewhere where they have lived before or may have grown up.

We are extremely positive about places for growth as a strategy. We see it as incredibly important. We have made significant progress at lower grades. We have not yet done as much as we would like to do on the Senior Civil Service outside of London. We have certainly seen that, in other Departments and in offices with a really strong Senior Civil Service presence, that has created a much more vibrant office culture and made it a much better place to work. That is something that we are very focused on for this year.

Q38 **Ian Byrne:** How often do Ministers use the regional offices?

Sarah Healey: Ministers use the offices particularly when they are doing visits in the local area. We held a ministerial board meeting—unfortunately, just before I started—in Wolverhampton, and have held another one in Edinburgh. Ministers visit the offices when they have the opportunity to do so.

Q39 **Nadia Whittome:** Last year, Homes England missed every target that it had set and has delivered fewer homes than in previous years. What are you doing, in both the short term and the long term, to address this?

Joanna Key: Overall, Homes England delivery in 2022-23 was about the same as 2021-22, but I completely accept the point that you are making about it missing its targets. There are some very specific reasons for why it missed the different targets. When you are talking about starts and completions, quite a lot of that was down to issues with the affordable homes programme, and I can go into a bit more detail in terms of why that was the case if that would be helpful.

Essentially, the affordable homes programme, as you know, was announced in 2021 for the five-year period between 2021 and 2026. When it was launched in 2021, it was in the middle of the Covid pandemic, so it was a very uncertain environment and we were not completely clear what could be achieved over the timescale. The target set at the time was for 180,000 new homes, should economic conditions permit. Even one year later, in 2022, when the NAO published its report, it was talking about the delivery partnerships that we have with Homes England and the GLA being contracted for 157,000 homes. Already, you could see over that period a recognition that some of the real issues out there in the economy were affecting the amount that could be delivered for the money concerned.



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Essentially, where we are since 2022 is that we have seen very significant increases in construction costs, to do mostly with supply chain issues post Covid. We have also seen a very significant increase in the cost of debt, because of the interest rate rises. There are a lot of uncertainties for registered providers in terms of the rental income, because of the cost of living issues that were faced by many of their tenants.

For a combination of these reasons, our delivery partners were telling us that they needed to relook at their investments. In fact, quite a lot had frozen investments over a period of about six months, so we have been spending a lot of time in 2023 renegotiating with our delivery partners and trying to make sure that we unfreeze delivery, so that we get it back up and running. That is the reason why, for those targets relating to starts and completions for Homes England, we have seen not as much delivery as we would like and were expecting, but we are hoping to get that back on track for 2023-24. There is no question that the money available has changed. The £11.5 billion for the programme as a whole remains the same. It is just being reprofiled slightly to reflect some of the issues that I was describing.

Q40 Nadia Whittome: Some of those statistics, though, are quite stark, particularly the 79% decrease in housing capacity unlocked, but also the almost 10% decrease in completions as well as the almost 4% decrease in in housing starts. It is particularly concerning that 70% of those shortfalls are due to shortfalls in affordable housing programmes. You have touched on it a bit, but what impact will the big underspend of £2.4 billion in the affordable homes programme have on both the Department's and Homes England's ability to deliver homes over the next two years?

Joanna Key: I do not know where the £2.4 billion comes from, but what we underspent in 2022-23 was about £600 million. It has been reprofiled into 2023-24 and 2024-25 rather than being lost, if you like, to affordable housing.

Q41 Nadia Whittome: That was the underspend on capital funds.

Sarah Healey: It is the overall capital underspend in the whole Department, rather than the affordable homes programme. That is the clarification.

Q42 Nadia Whittome: Yes, but that accounted for the majority of the Department's overall £2.4 billion underspend.

Matt Thurstan: There was a £900 million underspend in the affordable homes programme, of which £600 million into this SR and a further £300 million was reprofiled into the next SR.

Q43 Nadia Whittome: Apologies; that was not clear, but it does still account for the majority of the underspend.



Joanna Key: You talked about unlocked housing capacity and the targets there. This was in relation to the home building fund infrastructure loans issue. This is a loan fund for unlocking housing capacity through providing infrastructure. Essentially, we were hoping to unlock about 20,000 units in 2022-2023, which we had to push into a future year, because of issues around market conditions and confidence associated with some of the issues that I described earlier, and a few planning delays. Again, this is a delay rather than those units not happening. They will be unlocked. It will just happen slightly later than we had previously anticipated.

The general point that you are raising is around what we are doing to make sure that Homes England delivery remains on track. That is a really important point. The previous year and the combination of the issues that I have described has really taught us that we need to be completely on top of what is happening in the market and to try to track that, and to be swifter in terms of our renegotiation when we notice the kinds of problems that have arisen. We have learned from that and, as far as we are aware—and we are tracking this very closely and carefully—Homes England delivery is on track for 2023-24.

Q44 **Nadia Whittome:** It is particularly concerning that there appears to be a particular shortfall in supported homes. Homes England has allocated funding for just under 8,500 new supported homes in England excluding London, against a target of between 12,000 and 13,000. Why is that the case?

Joanna Key: As I have said, because of the problems with the affordable housing programme, they are below their targets on many aspects of the programme. I should have said earlier that, when we came to renegotiating contracts with our partners, one of the things that Ministers decided to do at that moment was also to look at whether we had the right balance between the different sub-tenures. One of the things that our Ministers have asked us to do is to push harder on social rent, for example, which, as you know, is a more expensive tenure compared to affordable rent and other things.

Again, we are in the process of just going through and trying to make sure that we have met need and demand in all those sub-tenures. When we come back to you shortly, we will have revised targets in all of those areas.

Sarah Healey: On supported housing, it is probably worth reflecting on the very significant reform programme that we have under way, which, thanks to a member of this Committee, will give us a lot more information about where there is a gap between supply and demand for supported housing. We will use that new evidence to inform future plans in that area.

Q45 **Nadia Whittome:** I understand your point about the wider problems with the affordable homes programme, meaning that there is a general



shortfall, but why do you think that there is a particular shortfall in supported homes?

Joanna Key: It is not particularly different to the other sub-tenures, but let me come back to you in writing on that.

Q46 **Nadia Whittome:** That would be useful. Lastly from me, why is Homes England writing off an increasing number of loans that it is owed each year? £148.7 million was written off in 2022-23, compared to only £17.5 million the previous year. That is a huge difference of well over £100 million.

Joanna Key: I do not know the specific reason for the write-down in that year, but what I would say is that Homes England loans programmes are there to try to get projects that would not otherwise be viable across the line of being viable. If the private sector, for example, could step in and fund those projects, we would not need to intervene. Those projects are often quite risky and sometimes go wrong. In a way, we have to accept that sometimes, across a very major loan book, there will be one or two loans that do go bad.

Sarah Healey: Just to reinforce that point, if none of the loans were ever written off, we would think that Homes England was not taking enough calculated risk here in order to try to deliver as much housing as possible with its money.

Q47 **Nadia Whittome:** There are two reasons why there might be this huge increase in the number of loans that Homes England is writing off. It could be one or two or a few big loans where the borrower's creditworthiness has declined—for example, a business becoming insolvent or an individual suffering in the cost of living crisis. A significant write-off might indicate a failure of risk assessment for credit risk, either before granting a loan or monitoring a risk during the course of that loan's return, or a failure to follow up on recovery where possible.

Sarah Healey: It might, but the percentage at the moment, considering the value of the loans made, does not give us pause on that count. We keep an eye, through all of our normal governance mechanisms, on what is happening with Homes England's finances and the loan book, but we are not currently concerned at that level of write-off.

Q48 **Nadia Whittome:** Even though there is a difference of £131 million—an increase from just over £17 million to just over £148 million? That is a big percentage.

Sarah Healey: We can follow up to give you a sense of the specifics, but, in terms of percentage of the overall value of the book rather than the change year on year, it is not something that is flashing red for us.

Matt Thurstan: I am happy to come back on that as well. Three loan amounts have been impaired. One of the challenges here is that those impairments sometimes do not turn out to be written off, and come back



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into the Department's accounts. This year, for example, we have had a couple of loans repaid that had been previously written off, et cetera. We will come back in writing in terms of what those three specific cases were and where they are now, because the position has changed.

Nadia Whittome: That would be useful. Thank you.

Q49 **Mrs Elphicke:** It would be helpful for the Committee and those watching if you could explain what the housing infrastructure fund is trying to achieve and who manages it.

Sarah Healey: We covered a little bit of this earlier in the hearing, but I will get Jo to repeat it.

Joanna Key: The housing infrastructure fund is there to unlock housing capacity through providing the kind of infrastructure that allows housing to be built out in particular areas.

Q50 **Mrs Elphicke:** When it was launched, it was intended to unlock 324,000 new homes. Is that still the objective of the fund?

Joanna Key: The fund went through quite a difficult period last year, in the same way that we just spoke about the affordable homes programme. Many of the same issues were the cause of that. We have had a situation in which, coming out of Covid, supply chain issues have meant a very significant rise in construction costs. We found that interest rates at the end of 2022 rose quite steeply, which has affected loan books and viability of some schemes.

We were experiencing some delivery issues as a result of that, which Homes England had to deal with by resetting the schemes and allowing a couple of projects that were no longer viable to fall, and by bringing back into viability and delivery some of the projects that needed longer and sometimes a bit more money in order to deliver the numbers that we hoped to unlock.

Q51 **Mrs Elphicke:** So it is all market forces.

Joanna Key: It is not all market forces by any means. We have learned some lessons from what happened with the housing infrastructure fund in terms of making sure that our scrutiny of projects on a really regular basis is improved. We have a three-pronged approach, where we have a monthly look at every single project in the portfolio. We then have a quarterly review, which is a bit hard to describe but looks at a fictional project, if you like, based on data in the past. For example, for a particular type of project, we look at all the types of project that were similar to it in the past and compare how it is performing against those past projects, so that we can determine how it is doing. Every year, we do a full review of the entire portfolio to check that it is on course for delivery. Those additional checks and balances have been introduced and have been reinforced since 2022.

Q52 **Mrs Elphicke:** So rather than looking at the actual pipeline of projects,



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you look at a fictional, made-up project, from what you have just explained.

Joanna Key: We look at the actual pipeline, but we are comparing the performance of the project to a portfolio of similar projects in the past, so that we can check how the performance of the actual project is doing against previous historic performance.

Q53 **Mrs Elphicke:** You said that it is a question of current market forces, so why are you looking at notional, pretend, historic, made-up projects to compare actual performance in current market situations?

Joanna Key: I did not say that it was market forces. I think that that is what you said.

Q54 **Mrs Elphicke:** I was summarising that you had given us a list of things that are all external market events.

Joanna Key: Yes, and I added to that by saying that we also needed to improve our delivery scrutiny of the projects and make sure that they are on track. In terms of trying to describe what we are doing here, we are looking at the performance of the project, but, in order to check that it is really on track, what do you compare it against? You can compare it against a portfolio of similar projects in the past.

Sarah Healey: Comparing projects against a reference group is a really normal process that, in fact, the IPA asks us to undertake in order to do proper scrutiny of project progress.

Q55 **Mrs Elphicke:** Thank you for jumping in there. Moving on to the issue of the IPA, did your own risk assessment support that of the IPA's judgment that, within a year, it has gone from amber, which was successful although with significant issues arising—and no doubt some of those could be attributed to changing market forces, but perhaps not all, by any stretch—to red, where it is unachievable? What was your own information telling you about your risk management?

Joanna Key: The IPA's assessment has gone from red to amber in its most recent assessment, which reflects the fact that we have been doing an enormous amount to try to bring the programme back on track in terms of its delivery.

Q56 **Mrs Elphicke:** You mean by these comparisons to these notional, made-up, historic situations.

Sarah Healey: We mean by use of reference group forecasting, which is a practice that is very common, and also through all of the scrutiny of the portfolio that Jo set out.

Q57 **Mrs Elphicke:** Turning to that portfolio, has all the funding now been allocated?

Joanna Key: Yes.



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Q58 **Mrs Elphicke:** Where it has not been possible to pursue a particular project, is there a readily available list of those projects that you have dropped from the scheme?

Joanna Key: We can certainly let you have that.

Q59 **Mrs Elphicke:** That would be helpful. The original purpose of the programme was to unlock housing—we are not talking about affordable housing, as Nadia well explored in the previous session; we are talking about a market intervention for all housing delivery—through roads, community facilities and utilities.

It would be really helpful in that information if you could also tell us what the loss is of the number of homes that would have been brought forward by those projects from their original assessment and what is not being provided in terms of those types of facilities for a particular area, and what assessment you have made in terms of the viability of that particular area's ability to bring forward the homes that its community needs, now that you have removed it from the programme. Is there an example of an area where you have made that assessment that you can talk us through?

Joanna Key: I do not have one with me at the moment, but we can certainly write to you with that information.

Q60 **Mrs Elphicke:** This is a 2017 project and I realise that there are lots of changes in terms of people in the Department, as well as some who have not changed. When was the Department aware that there were issues in this fund?

Joanna Key: I started in this job in September last year.

Mrs Elphicke: This all pre-dates you.

Sarah Healey: It is worth saying that one of the first briefings that I got when I arrived as Permanent Secretary last February—

Q61 **Mrs Elphicke:** Was that from another Department?

Sarah Healey: Yes.

Q62 **Mrs Elphicke:** Had you had housing experience before?

Sarah Healey: No. When I arrived, one of the first briefings that I was given was specifically about the process of delivery of the housing infrastructure fund and the changes that have been made in order to accelerate delivery. My previous experience included large infrastructure projects, so I was able to bring that experience to bear in understanding what was being done to manage that portfolio.

Q63 **Mrs Elphicke:** The money has all been allocated, so are you confident that that will now be spent?

Joanna Key: Yes, we are.



Q64 **Mrs Elphicke:** Could you explain why the Housing Minister, in evidence to us just a few weeks ago, said that there had been a number of projects that had not been possible to pursue and that he is encouraging local authorities to spend it? There was no confirmation that they would spend it, so how confident are you?

Joanna Key: You can never be 100% confident, because you are working on these projects with delivery partners, and sometimes things will be beyond their and your control. We have allocated the budget fully and are in very close contact with all of our delivery partners. As I have described in terms of the process, we are monitoring these projects extremely closely. We have a system that has been approved by the IPA for doing that. It has moved its assessment of the housing infrastructure fund from red to amber in terms of its overall confidence in the delivery. No one can ever be 100% confident, but we are as confident as we can be that we will spend the money.

Q65 **Mrs Elphicke:** Are you aware of any projects that the IPA looks at that might be green? Is your aspiration to have green?

Joanna Key: Yes, our aspiration is always to have green. At the last assessment, they were indicating that it was very much moving in that direction, and we hope that their next assessment will be green.

Sarah Healey: There are some projects that Government pursue that are so complex that it can be extremely challenging to get them to a green measure. Amber often reflects the complexity around a project rather than necessarily the fact that the delivery is not being done well.

Q66 **Mrs Elphicke:** But this assessment is on your programme, not on the underlying delivery. We just need to be clear about that. This is not a single project like HS2. The assessment is on your Department's delivery of a programme.

Sarah Healey: It is sometimes more challenging with a project to get to green than it is for others.

Q67 **Mrs Elphicke:** Indeed, but why would you think that managing a programme where you are handing out very welcome money to help build roads, community facilities and utilities would be one of those?

Sarah Healey: It is just the nature of the infrastructure spend and the complexity of working with the local areas and so on. It just is the case, but, as Jo says, we are always keen to get our projects to green. We have moved this project in its latest internal assessment from red to amber, so it is going in the right direction.

Q68 **Tom Hunt:** I understand that the 18-metre-plus building remediation programme has been downgraded from green to amber. What are the main issues facing this programme, and what are you doing to fix it?

Sarah Healey: The ACM remediation programme is in a very good situation. We have 96% of buildings on track for remediation. Only four



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occupied buildings do not have a start date, two of which are subject to enforcement. We are involved in engaging one locally, and one has only just entered the portfolio.

The reason why the rating has changed is because we no longer have a separate rating for that ACM remediation fund. It is now wrapped in with the other routes for remediation through five different programmes that we run in order to address building safety issues—the building safety fund, the cladding safety scheme and the responsible actors scheme. Because some of those are at an earlier stage of delivery, the overall rating for all of them is amber, and the ACM programme has not gone backwards in delivery but has continued to go forwards.

Q69 Tom Hunt: Are you confident that there is still enough in the building safety fund to support the many buildings that seem to be cropping up and needing significant support?

Sarah Healey: Yes.

Q70 Tom Hunt: Is the application process working well and speedily?

Sarah Healey: Yes, as far as I understand it. If you have evidence to the contrary, we are always keen to hear.

Q71 Tom Hunt: I do not have a huge amount of evidence to the contrary. I just know of a building in my constituency that put an application in. The quicker that that can be dealt with, the better.

Sarah Healey: Half of those that have gone into the fund have been started, so we are halfway along beginning that. Some buildings that are in the building safety fund have been transferred out of it, because they are now covered by the responsible actors scheme and will be either remediated or funded by developers who are part of that responsible actors scheme.

Q72 Tom Hunt: It is good to know that there is the finance there to support all the buildings that need it, but there are many buildings. You will probably be aware of the situation in Ipswich with The Mill, which is an incredibly complex case, with cladding problems and deep structural problems. It is a scandalous situation where NAMA, the Irish creditor, became the creditor for the development. An out-of-court settlement of about £50 million was agreed with Laing O'Rourke to cover the cladding issues, but then NAMA went off with this money. We are talking about over £10 million.

I understand that the Secretary of State has written twice to the Irish Finance Minister. I raised it at PMQs. The Prime Minister said that he is going to raise it with the Taoiseach. I am sure that you would agree that this is not a good situation. When the Department is figuring out how it is going to fund all these remediation works, getting back money that is meant to be for that purpose and which has been taken should be a priority.



Sarah Healey: If this is something that the Prime Minister has said he will raise with the Taoiseach, it is not for me to suggest that it is not extremely serious.

Q73 **Tom Hunt:** My understanding is that the building safety fund is to cover cladding remediation. In terms of structural problems that make a building unsafe but do not come under the cladding remit, is there a separate fund?

Sarah Healey: My understanding is that the ACM programme was specifically for the kind of cladding that was on Grenfell Tower. The building safety fund is for cladding problems that are non-ACM, so other cladding issues. The cladding safety fund is for those medium-rise, 11-metre-plus buildings that require cladding remediation. The responsible actors scheme also covers other building defects, but I am afraid that I could not answer your question—unless you can, Matt—about exactly what is covered in terms of other defects in buildings elsewhere.

Matt Thurstan: No, sorry.

Q74 **Tom Hunt:** In the case of this building, the report into the external walls has not been completed yet—it is due to be completed soon—and so we are not in the position right now to say what the total cost of all of this is going to be. We think that the cladding will be about £15 million, but there could well be £15 million of non-cladding structural problems. We are hoping to be successful with the building safety fund. When this separate review into external walls is completed, we are going to have to have more money. There are over 200 leaseholders, and one thing that is for sure is that none of them should have to pay for wrongs carried out by the developer, et cetera.

Sarah Healey: No, indeed.

Q75 **Tom Hunt:** On a slightly separate note, why have some building developers that promised to remediate unsafe buildings failed to sign the contract to do so, and what are you doing to address this?

Sarah Healey: As of March 2023, 46 developers out of the 49 that had pledged had signed. The three developers that had not signed at that point—Dandara, Galliard and Avant—have all subsequently signed. The number of developers that are now part of the developer contract programme and, therefore, the responsible actors scheme, has changed since the pledge. Some of them have gone out because it turns out that they did not have any buildings that were relevant to the scheme. Others have come in, and we have engaged with those and agreed timescales to give them a specific amount of time to sign. All of them have done that, other than one, whose eligibility we recently reviewed, still within the window that we would give them in order to sign the pledge. We have 54 signatories at present.

Q76 **Tom Hunt:** Are you concerned that the 2022-23 annual report states, “There is the potential for a further fatal building safety incident”? How



concerning is this to you?

Sarah Healey: Any fatal building incident would be concerning to us, which is why, as I have set out, we have a range of schemes in order to address issues with buildings. I know that you also heard evidence recently on our work on construction products, and it is important to us that that makes progress in order to make the changes that we need to make to ensure that people can have confidence in the safety of all the construction products that are used in building in the UK.

Q77 **Chair:** In terms of the waterfall, if there is no developer now to be held accountable—perhaps they have gone out of business or whatever—and the waterfall ends up with the freeholder, who says, “We are not doing anything. You can take us to court”, leaseholders often cannot afford those costs. In that situation, does the Department have any responsibilities to help them?

Sarah Healey: We will always take action to pursue freeholders where they have the responsibility and, indeed, are doing so in a variety of cases. We have made it completely clear that we do not want leaseholders to end up picking up the bill here.

Q78 **Chair:** Will you take the freeholder to court in that case?

Sarah Healey: We have taken action against freeholders in the past.

Q79 **Chair:** In terms of the answer to the previous question about which fund covers what, which sometimes does get a bit confusing, is it possible to set it out for us in a written response?

Sarah Healey: Yes, of course it is. It does get quite confusing. I have listed what I can today, but I realise it is quite a complex picture because of the timescales on which different schemes have been launched. We launched the most urgent ones first, which is why the ACM remediation scheme is so far down the line in terms of delivery. We think of them as one programme rather than lots of different funds, precisely because there is this crossover between them. That helps to give an overall picture, but I am very happy to set out the detail of that.

Q80 **Tom Hunt:** I just have one final point. I am sorry to sound so locally focused, but really what is happening at The Mill is incredibly unique. It has commanded national attention, for obvious reasons, but it is getting incredibly pressing. There is not a freeholder there. The money for waking watch is running out at the end of March. A lot of my constituents are terrified about what is going to happen.

I understand there are some similar examples in London where some of the leaseholders have ended up becoming freeholders. I have been into the Department and I am reassured that senior people within your Department are engaged on it. I know it is complex, but please stick at it. There are over 200 people who are relying upon the Department to come up with a solution.



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Sarah Healy: We absolutely will, thank you.

Q81 **Chair:** When you provide the information about the different funds, it would be helpful if you could give us an idea of the buildings that you think are covered by each one, how many have so far had the work addressed or—

Sarah Healy: We can give you percentages on all of those. In fact I can give you some of them now, but since the funds are all so confusing let us not read them out now.

Chair: It would be better if you could set it out in a written response.

Sarah Healy: Let us write it down. It will be better written down.

Chair: Yes, I think so. Thank you very much.

Q82 **Mary Robinson:** This Committee has been considerably disturbed by the backlogs in local audit and the impact they have had on local authorities and, by virtue of that, on communities. We know the Department is working on addressing the backlog in local audit. There still seems to be some uncertainty around timelines. I believe there is also a conversation going on around introducing a backstop date.

Would you be able to give me some clarity on that? When do you expect to have restored timely audited local government accounts? How long will the stopgap measures have to continue?

Sarah Healy: I will ask Catherine to take you through the detail of what we are proposing, but, just to reassure you, we take the situation with local audit extremely seriously in the Department. It was, again, one of the first things I was briefed on when I joined. We completely recognise the systemic issues that need to be addressed and the problems that it has the potential to create.

Catherine Frances: In terms of next steps, I very much agree with Sarah on the importance of the issue. We know it is fundamental across the system.

Our Minister wrote to you in December and we have also responded to the really helpful report from the Committee. Thank you for that. First, we are proposing to set a statutory backstop date—we expect that we will be going out to consultation; we need to get everybody's views on it—of 30 September 2024.

That is quite an innovative proposal because we are effectively saying that this will be the statutory backstop date for all years up to and including that year. That will enable auditors to issue an opinion or to close down the account on multiple years in one.

As I have said, we expect to consult on that by early February. Our colleagues in the NAO are also planning to consult on their changes to the code of practice, which need to be made in parallel. Coming out of that,



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once we have run the consultation, we will need to lay legislation, assuming that the final decision is to proceed with that.

We will subsequently have to lay statutory backstops for five years thereafter. The reason for that is that, effectively, as we reintroduce elements of audit year by year by year to make sure assurance is built up and sustained over the period, we need to make sure we hold everybody to account.

Lots of people have asked us about what checks and balances are in there, which is an entirely legitimate question. First, we have taken the view that being so late, as audit has become in local government, is itself a quality issue as well as a timeliness issue. That is why we want to reset. We are going to keep the big warning signals from auditors, public interest reports and the value for money statement, because we think those really enable people to interpret what is going on in a council.

Q83 Mary Robinson: Are local authorities and auditors perhaps taking a little bit of a breather in anticipation of this happening?

Catherine Frances: I do not think so. We have given quite clear instructions to both local authority colleagues and our colleagues in the FRC who work with auditors. We have made sure everybody knows to keep cracking on as far as is humanly possible.

We know people are anticipating this consultation that is coming through. We know that people are keen to have more detail and more information, which is why I am talking about it openly today, why the Minister has written and why we have also been communicating with finance directors in local authorities.

People understand the urgency here. They understand that, if we are going to find a way of addressing this backlog that has grown up, we need to move as a whole system, with local government, auditors and all the relevant regulators moving as one.

Q84 Mary Robinson: What about the introduction of ARGA and the governance that you will need? What is the timeline for that?

Catherine Frances: The legislation to put ARGA on a statutory footing needs to wait for parliamentary time. We are not the lead Department on that, but we have cracked on anyway with our colleagues in the FRC.

We have established an MOU with them, which we issued in March of last year. The FRC unit has staffed up excellently. They have a lead on it who is very experienced in the audit sector. Just last week we had a meeting of the liaison committee, which brings together all the key organisations and which was chaired by my colleague from the FRC very much with us alongside.



That unit and that system leadership is up and running. It is just that the FRC is doing it in shadow form at the moment pending the legislation being passed.

Q85 Mary Robinson: Who is taking the lead on this then? It is split between Departments, is it not? It is split between DLUHC and Department for Business and Trade.

Catherine Frances: Yes, Business and Trade runs the actual legislation, but we are very clear that, when that legislation is passed, we will feed into Business and Trade's requests, requirements and stipulations for ARGAs.

In terms of the local audit programme in this reform, we are absolutely the lead Department. DBT colleagues join us on all of the key conversations and arrangements, but we are the lead Department for sorting out local government audit.

Q86 Mary Robinson: The departmental overview raised concerns about further challenges for delivering future local authority audit. The PSAA, which appoints auditors to local government bodies that have opted into its national scheme, advised local government bodies to expect fee increases of 150%, dependent on the level of work, in the first year of new contracts. How do you expect councils to cope with those fee increases?

Catherine Frances: It is important to say, first, as you have said, that PSAA issues these contracts into the market. We do expect really significant fee rises exactly at that level. We think it reflects the changing nature of audit that has happened over time.

Over the last few years, we have seen an arrangement that has been somewhat suboptimal. Fees were set and then had to be adjusted year on year and case by case for each individual piece of work. We think that resetting the fees at this level reflects an accurate assessment of what the market will bear. As I say, though, we are not the lead organisation on that; PSAA is.

We have put additional funding into local authorities at various points to deal with some of the new requirements to engage with auditors and some of the flexibilities, but in general, although I totally acknowledge that local government will say this is an additional cost pressure on them, we think it is, first, important enough and, secondly, something they can meet from their budgets. It is not a huge part of their budgets, and it is an incredibly important corporate and governance piece for them.

Q87 Mary Robinson: The issue previously was that auditors would put in a low tender for the work and then find they could not do it within the contract that they had. How are you going to avoid that?

Catherine Frances: This is rightly a question for PSAA, which is in charge of tendering and managing these contracts. It will do that in the



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normal fashion. It has issued for the whole sector and achieved coverage of the whole sector. We are pleased because two new providers have entered that market. There is a degree of diversification happening there. In the normal way, it will do adjustments as it goes. I am afraid the detail of how it manages that is probably for PSAA to answer rather than me.

Q88 **Mary Robinson:** Is there a sufficient number of providers in the market?

Catherine Frances: Yes, PSAA thinks there is.

Q89 **Mary Robinson:** You believe that there are.

Catherine Frances: Yes.

Q90 **Chair:** The next two, three or four years—who knows?—will be a very challenging time for audit. If we are going to manage without ARGA, why is ARGA needed?

Catherine Frances: The view that we have reached, which I think is correct, is that there is a range of functions in local government audit. The NAO has functions related to the code of practice. We set the local government financial framework, as you know. PSAA is the procurer. CIPFA has a role, et cetera.

There is a huge value in having an organisation that will synthesise and lead the work across those different organisations. The enormous benefit of the FRC doing this or ARGA, as it will be when the legislation is passed, is that they really understand the wider audit market. They can situate local government audit in the wider commercial system, which is the system and the market in which we are operating.

The fact that they have created a unit in that that has local government expertise and expertise in other local bodies brings together the best of both worlds. They have someone who understands that part of the sector and that the demands for local government are different to the demands for a corporate or whatever. At the same time, they have a huge amount of expertise in the organisation, which is really helpful.

Q91 **Chair:** Will you be able to manage without that for the next three years?

Catherine Frances: They are already up and running. The key point is that the FRC is already operating its shadow leadership system. It has a unit that is leading this work.

Q92 **Chair:** Why not just continue with the FRC?

Catherine Frances: That is a wider question about the regulation of audit, which is not for my leadership or our Department's leadership. It is for the Department for Business and Trade.

Sarah Healy: The change to ARGA does more than address issues with local audit.



Catherine Frances: Yes, it is a much wider set of changes around the management of audit.

Q93 **Chair:** Is that needed for local government?

Catherine Frances: From a local government perspective, we are very clear that we need a good clear sense of what audit is for and what its value is. We need a way of bringing together commissioners, providers and people who benefit from audit. We need a way of synthesising that with the NAO, CIPFA and others.

We need the leadership. It is enormously beneficial and sensible to put that in an organisation with expertise. It would be very unusual to run such a function within a Government Department, for example. This is about managing the relationship of different regulators in the market.

Q94 **Chair:** That is not going to happen for the next few years, until you get legislation.

Catherine Frances: No, it is not. As I say, because the FRC is running in its shadow—

Q95 **Chair:** Why not let it carry on? You are saying that ARGA is so important, that this new organisation is so important and that all of this is necessary to make everything work, but you are going to have to make it work for the next three years. Why not let the FRC handle it?

Sarah Healy: The point is that it is doing a lot of the job that it would otherwise be doing as ARGA in its shadow form. The need for ARGA is a broader business need for audit. We do the best that we can in the absence of the legislation.

What Catherine is setting out is that, in pretty much all forms, the job that the FRC will be doing in future as ARGA is being done with regard to local audit. However, we would always prefer that to be formalised and set out in legislative form under the creation of an organisation that is going to have a broader range of responsibilities.

Catherine Frances: Just for full clarity, the change that would happen not in the shadow context but in the final context would be that the NAO's code of practice, which it lays down, would move to ARGA. That has been set out in all of our documentations and publications.

Q96 **Andrew Lewer:** It often appears like the Government do not fully understand the scale and scope of the regulatory functions that end up being placed on local government. Is that a fair assessment?

Sarah Healy: No, not particularly. Could you possibly clarify which bits you are most concerned about?

Q97 **Andrew Lewer:** I can give you an example, but it is not about a particular bit. It is this idea that regulation ends up being passed that has an impact on local government in terms of its implementation. It is often



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passed by Departments other than DLUHC; they do not necessarily understand local government as well as your Department does, and yet the work ends up falling onto local government. I just wondered whether that rings a bell.

Sarah Healy: One of the roles that we have as a Department is to ensure that there is consciousness, awareness and understanding of the role of local government and that the impact of policy changes on local government is properly understood.

Clearly, there is the long-established process of doing a new burdens assessment. When Departments want to get local authorities to do something fresh, different or new, they have to assess those burdens and fund them accordingly. There is a process in place across Government for doing that.

With colleagues, I am really conscious to ensure there is a thorough understanding of the position of local government, how it is currently operating and some of the pressures that are placed on local government. That is something that Catherine and I do through a range of different forums with colleagues across Government Departments. It would be really helpful to understand the specific instance where you think that was missed.

Q98 **Andrew Lewer:** There are lots of examples of it happening. I am just interested in whether you have to prod other Departments fairly actively, to say, "Do not forget that this affects local government".

Also, what is the trigger for the new burdens doctrine? You said "fresh, different or new". Sometimes, or in fact most of the time, it is not new and fresh; it is just more. As an example, take trading standards. The latest stuff, with which I am not necessarily all that enamoured, is about an additional set of requirements on trading standards for vaping flavours and what have you. Trading standards would argue that it is not sufficiently well funded to deliver an effective service in terms of regulating smoking cessation products. Where is the new burdens trigger when it is just more of the same rather than something new?

Catherine Frances: Maybe I could talk a bit about that. It is partly new burdens, but it is also partly about, if I can come back to your question, how we relate to other Departments.

When we do a new burdens assessment, we really just ask ourselves, "Is this, as the name suggests, a new burden on local government or is it something that we can reasonably include in the general expectation of what local government does?" New burdens is so commonly used that my finance team will have relationships with all of the key finance teams across different Government Departments. We will be asking them and QA-ing with them about whether new burdens funding should be applied in a particular case.



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I do not know the detail of the public health example that you are giving there, though I am sure my team will look at it. Public health funding in local government is in a very large grant, which is ring-fenced. I do not know about the particular case.

Q99 **Andrew Lewer:** This is about trading standards, which is not within public health.

Catherine Frances: Yes, absolutely. I do not know about the detail of that particular one because we get quite a large volume of different responsibilities and accountabilities coming through. Where something changes, we work really closely with the lead Department.

If I can give you an example, social care is a very large market. Local government does a huge amount of commissioning in that market. The Department of Health and Social Care has introduced a new innovation, which is to have the CQC regulating the commissioning of social care. That will definitely have an effect on local government.

We have worked with our colleagues in DHSC and asked questions about how fast CQC should be rolling that out. CQC has also been working through that. Part of the conversation between local government and DHSC has been about what feels manageable and what feels like it is working well or less well. We help advise the lead Department on what councils are saying. We do not duplicate all their contact. It is a daily pursuit to try to make sure it is factored in properly.

I hope that is helpful, but it is a flavour of how we work with all the different Departments. It will be slightly more or less intense depending on the level of engagement that Department has with local government.

Q100 **Andrew Lewer:** Do you see yourselves as advocating for local government in that? I am not sure that the other Departments are always incentivised to say, "Yes, we are generating a new cost on local government, and central Government needs to come up with it".

Catherine Frances: We definitely have a dual role. One of our roles is to act as the advocate for local government and to challenge colleagues across Government and say, "Have you thought about this? Have you remembered this?" The other role is to support Departments when they are trying to do that assessment and say, "Yes, that is reasonable and in line with the normal approach".

Local government is so flexible and so able to turn to different things that colleagues can sometimes be more or less familiar with working with them. Local government can be more or less at the front of their minds when they are introducing reforms. In general, we see quite a high level of engagement.

Q101 **Andrew Lewer:** Will new burdens be triggered by biodiversity net gain?



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Catherine Frances: I do not know, but I can go and check all the detail. We get a lot of new burdens requests. Sometimes there is different funding.

Q102 **Andrew Lewer:** How does the Department assess how effective local government has been at regulating areas of national concern like taxi licensing, food safety, which I have just mentioned obliquely, and others?

Sarah Healy: Fundamentally, local authorities are accountable to their local areas. Government Departments will be working closely with local authorities on how they perform.

You will be aware that we have established Oflog, which is a way of making sure that we have consistent, available data on a range of topics for comparison across local authorities. That data will often not tell you the answer about how well something is going in a local area by itself, but it might prompt engagement and conversation with that local area about what the data suggests.

Q103 **Andrew Lewer:** The Local Government Association, of which I am a vice-president, has produced LG Inform, which is a big data set, for a long time. How do you avoid duplication? Have you found that the data produced by Oflog has not necessarily always been in tune or agreed with the data that existed previously?

Catherine Frances: I will come in on that. Oflog is a developing institution. It issued the first wave of its metrics to measure what is going on in local government in a certain number of areas, and then in December we topped that up. The organisation will just carry on adding to that.

It is different to the LG Inform product that the LGA runs for some quite straightforward reasons. Oflog is fully public. It is curated. LG Inform has a vast amount of material. Oflog has slimmed that down to the key metrics. It is putting a huge amount of emphasis on making it immediately transparent. When you go on to the Oflog tool, it is clear that it is comparing a particular council with its statistical nearest neighbour using the CIPFA categorisation.

It is just a different tool. I do not want to criticise the LGA's product at all, but it is easier for the general public to use the Oflog data to understand where their council is. It is one of the things that we have often heard: that, although you can be an expert in local government and find out a huge amount about your council, it is not necessarily so easy to compare two or three councils with each other or, if you are in a council, to learn about best practice elsewhere.

Q104 **Andrew Lewer:** Finally, we have talked about new burdens, but what about old burdens? If there is a fall in local authority funding to fund regulatory services and all those old burdens are still there, how do you assess, on behalf of the Department and more broadly against Government, their ability, first, to regulate the services that you have



already quite often imposed upon them, and, secondly, to be able to cope with new burdens when the old burdens, often in the same area, are not sufficiently funded in the first place?

Catherine Frances: That is a process that we do at spending reviews. Essentially, we take an input from all the lead Government Departments. They model, as always happens in a spending review, what the likely path of future need will be in their area. We have some areas of spend that are relatively small. We try to uplift them in the particular technical way that we do at every spending review. It is the overall calculation. We do not sit there with the many hundreds of statutory duties on local authorities and go through them line by line. We do the overarching piece and then look at the tax take. We look at council tax, business rates and grant, and then we work our way through from there.

Q105 **Mary Robinson:** When we have spoken to CIPFA, it has talked about its benchmarking club and how it shares information. That seems to me to be a sensible way to proceed. What consideration has the Department given to subsidising or being more involved in something like that?

Catherine Frances: I agree with you that it is incredibly helpful. Oflog has a commitment not to recreate new data sets. Wherever possible, it draws its data from existing sources. It has published a financial data set for local government, which will enable people to see that financial data set, rather like when you see the CIPFA comparators, along with other service areas. That is itself quite helpful.

Our Department has long since collected comparative financial data on different councils. We fully support CIPFA in doing so. The fact its tool has been made publicly available—although it can sometimes be challenging to be on the receiving end of that—sheds a huge amount of light for people in the sector.

We work closely with CIPFA. We fund a significant subset of that sector support via a grant to the LGA and the LGA opens that out for wider competition. We work really closely with CIPFA on lots of things and we really support its work.

Q106 **Mary Robinson:** Would it not make sense for it all to be brought together rather than having different bodies doing similar things?

Catherine Frances: To a large extent, that is what Oflog is doing. It is not crowding out these other organisations; it is synthesising the data that is publicly available, in an intelligent and curated way, into a set of metrics. You can then go on a website, click a link, see your council and look at how these different things interlink. It is very much the attempt to bring that together.

Q107 **Mary Robinson:** The benchmarking club information is not publicly available, is it?



Catherine Frances: I do not know. You would have to ask CIPFA for the detail about all of that stuff. It has its wider metrics, which it publishes.

Mary Robinson: I am just putting the idea into your mind.

Q108 **Chair:** Moving on to funding issues, it has been agreed that there will be an attempt to reduce the multiple funding pots that are around that authorities have to bid for. One of the examples of how things ought to develop was the trailblazer single pot for West Midlands and Greater Manchester. Is it not rather disappointing, therefore, that, within a few months of that being announced as a great way to do things, it has been said it will not automatically be rolled out as a way of working to the other combined authorities?

Sarah Healy: We have stated an ambition for the trailblazer model to be rolled out to all areas in England with a devolution deal and a directly elected mayor over time. We would not do it automatically. For one thing, it is a very significant change in how we are funding local areas. Clearly, we have worked very closely with Greater Manchester and the West Midlands mayoral combined authorities in setting up that deal.

It is often the case that Government are criticised for rolling things out before they have tested how well they have gone in their initial formation. We will want to see how that works its way through before necessarily spreading it around, but we have been absolutely clear that this is what we want to see because of the benefits of funding simplification and devolution to local areas.

Q109 **Chair:** How far away is the next round of trailblazers after Greater Manchester and the West Midlands?

Sarah Healy: We are starting the trailblazer deals at the beginning of the spending review. We will want to see how that goes. We will want to see how our accountability framework works and what impact we are having, but we will keep it under constant review. I cannot say for sure because it is a ministerial judgment on the basis of what happens at the next SR.

Q110 **Chair:** It is years away, is it not?

Sarah Healy: We are introducing the trailblazer deals imminently or as soon as we possibly can. Our implementation work is under way. We have an ambition to roll it out to other areas that have a devolution deal.

Q111 **Chair:** It would be interesting to see how far the Department can go in streamlining the number of funds, but the big challenge is to get other Departments to join in that process, is it not? When you look at the pots of money, they are not all within DLUHC. They are scattered all over.

Sarah Healy: No, indeed. This is a very good example of the cross-Government working that DLUHC does on behalf of the interests of local government, both engaging with other Departments that want to



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understand them better and working with Departments that want to achieve a particular outcome.

We have established a funding simplification doctrine, which came into being at the beginning of January, at the beginning of this month. In a similar way to the new burdens assessment, any Government Department that wants to issue a new separate funding pot to a local authority has to go through a series of steps to prove it is the best way for them to deliver that funding because of all of the challenges created by having separate pots that come from different parts of Government.

We would like to see funding to local government significantly simplified. We consistently work with other Government Departments on how to achieve that.

Q112 **Chair:** Is there a list of all the pots of money that are available for local government to have or bid for across Government? Has someone got a comprehensive list?

Catherine Frances: There are two different types. First, there are the competitive pots. Exactly as Sarah said, we have heard from councils that it can be quite a lot of work to go through that process. That is where the consolidation work is starting from 1 January.

There is a separate set of issues around the individual grant streams that go into local government. Often, they do not have conditions attached, but there are multiple streams. That is a larger list.

Q113 **Chair:** Is it possible to have a list of the competitive pots and the grant streams?

Sarah Healy: We can certainly produce a list of the grant streams.

Catherine Frances: We can try. It is across all of Government. I am slightly pausing on offering it to you just in case it becomes a mammoth task to pull it together, but we can see what is possible.

Chair: It is not as big a task as it is for local government to try to respond to it.

Sarah Healy: We can possibly scope the task and then see how best we can respond to the request.

On your point about moving to trailblazers, it is worth saying that we are looking at what we can do for level 4 MCAs in terms of merging some funding pots into fewer earlier on. As I am sure you are aware, we are also running a pathfinder in which we are looking at enabling local authorities that are in receipt of what the NAO looked at as several levelling up funds to be able to move between them. Both of those are ways in which we are trying to move faster on the principles that are established in the trailblazer deal.

Q114 **Chair:** When you provide the information, as much as you can, about the



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different pots and grant funding, it might be helpful if you could indicate what is now being proposed in terms of amalgamating any of those streams and pots together as a move towards simplification.

Sarah Healy: We can certainly explain what we have done in terms of the pathfinders, where we are allowing local areas that are in receipt of multiple pots to move money between them.

The funding simplification doctrine, which came into being at the beginning of January, sets out a range of things. It says, "Before you set up a new funding stream to local government, please consider whether or not you could deliver the same objectives within an existing funding stream".

It also specifically asks the question about competitions. As our Secretary of State has said, there is a role for competitions, but you can have too much of a good thing. In future, we want Departments, including DLUHC, to consider whether something could be done via an allocative method, which causes less work on behalf of local government, rather than a competition method for delivery.

That does not mean we will never have competitions in future, but it certainly means we will ask ourselves some searching questions before we launch one about whether that is the best way of establishing and getting value for money and innovation in a particular policy area.

Q115 **Chair:** It is good to see that some travel in that direction is already starting to happen.

Sarah Healy: We are monitoring the implementation of the funding doctrine. We will reflect on that when it is more than a few weeks old.

Q116 **Mohammad Yasin:** I just have a very quick one. In future, will the Department consider switching to a funding model that does not pit towns against each other by having to bid for funding but rather focuses on ensuring that funding is allocated at a sustainable level based on need?

Sarah Healy: I will allow Catherine to comment on where that is related to the broader local government settlement.

Where it is related to competitions, I can only repeat what I have just said. We have recognised the issues with competitions. The Secretary of State recognised the issues with local government bidding for funds in his speech to the LGA last summer. As a result, at that time we published a simplification plan. That established the plan for the doctrine that is now in force across Government Departments, which asks Departments to consider allocative approaches rather than competition-based approaches.

Q117 **Mohammad Yasin:** I am asking this question because the town of Kempston, in my constituency of Bedford, has had two applications for



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levelling up funding refused in the last two or three years. We are really concerned that the funding given to other areas is probably needed more in Bedford than in those areas. That is the reason our constituents are really frustrated by this system.

Sarah Healy: Yes, that is understood. That is what we have reflected in the simplification plan. I do not know whether your question referred to general local authority funding.

Q118 **Mohammad Yasin:** Catherine, do you want to come in?

Catherine Frances: Your question related to particular funds. I am very happy to elaborate on wider local government, if you want, but it is a different question.

Q119 **Mary Robinson:** Just for clarity, you mentioned that a single pot would be available for directly elected mayoral models. Is it your understanding that any changes to the way allocations are made to local authorities will be dependent on a directly elected mayor?

Sarah Healy: The stated policy of the Government, the Government's ambition, is to roll out the trailblazer model in future to all areas in England with a devolution deal and a directly elected mayor.

Q120 **Chair:** I want to continue on funding issues. Is the Department getting better at predicting where section 114 notices will be served?

Catherine Frances: The Department is and has always been very good at understanding where local authorities are under financial strain. We have always said, particularly over the last couple of years, that our door is open to any council to come and talk to us about their position.

To be clear, we tend not to be surprised when people have financial issues locally, if I can put it that way. If a council chooses to issue a section 114, that is a local decision for a local officer. Effectively, it is a decision that the officer or the finance director takes, if they are either concerned that they can see unlawful expenditure happening locally or they think that they are going to have an issue balancing the budget and that the council is not moving to a point where they can rectify that.

The effect of a section 114 notice is that the finance director essentially says that locally, for the next 21 days, all spending decisions are going to come through that person. They choose what to fund at that point. Is it going to rectify the situation, make it better or be a service that they have to—

Sarah Healy: You asked my predecessor and Catherine last year whether they had ever been surprised by a council issuing a section 114 notice. Both of them said they had not.

Catherine Frances: I have never been surprised by it.

Sarah Healy: The same is true now.



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Q121 **Chair:** How many authorities are there where you would not be surprised you if they were to be issued a section 114 notice?

Catherine Frances: We have always said to this Committee and the Public Accounts Committee that we are happy to talk to councils and to have conversations with them. It is quite important that those conversations happen in confidence and that we do not turn up to Committees like this and say, "This is the number of people we are talking to and this is what we are expecting".

Q122 **Chair:** Are you having more of those conversations now than you were a year ago?

Catherine Frances: We are having a range of conversations with local councils. I would expect that they will all be processing the additional funding that the Government announced last week for the local government finance settlement, the additional £600 million that was added to the local government finance settlement. Councils will be working that through.

Q123 **Chair:** I have one more question before I pass on to Bob. What is the productivity plan?

Catherine Frances: One of the things that the Government announced was that, in addition to the £600 million going in, every council would be asked to produce a short productivity plan. We need to work with councils to design that in a way that it pulls out the key drivers, as far as councils are concerned, that can unlock productivity improvement and enables us to see their key milestones and key plans.

We have not designed the detail of that yet. We have said to the councils with which we have worked with over the last week or so on this that we are open to having a good conversation about how that looks, but I would anticipate that it will allow councils the opportunity to describe what their own plans are, what the enablers are and what they need to move forward.

We said in the local government update last week that we would be looking to monitor those. We would look at that both on a sectoral basis—I anticipate it would be very helpful for us to learn more about the sector and their plans—and on an individual council basis.

Q124 **Chair:** Is that a new burden?

Catherine Frances: I do not think so. It is a very short document. Councils are normally expected to have a multi-year financial plan. Any competent council will be able to tell us what their productivity plans are.

Q125 **Chair:** It seems quite a new venture for local government, as far as I can see, but no doubt we will have a response from councils in due course.



Catherine Frances: I would hope that they have thought about their productivity and how they are going to manage their organisation over the next few years.

Q126 **Bob Blackman:** The Committee on Climate Change made 12 recommendations to the Department, of which we know three have not been carried out because they were due to take place last year, and there is some doubt about the other nine. I can run through the three that have definitely not been met, if you like, but can you tell us why those three have not been actioned so far?

Sarah Healy: I am afraid I cannot.

Joanna Key: I do not know.

Q127 **Bob Blackman:** There are three that we have been told about. The first is to set out a plan to make an assessment of whole-life carbon and material use of public and private construction projects mandatory by 2025. That allows the industry to plan for 2025. That has not been done.

Equally, the committee recommended that the Department should have implemented improvements to the standard assessment procedure and reduced data standard assessment procedure to ensure they accurately model performance, drive deployment of energy efficiency and low-carbon heat measures and address overheating, ventilation and moisture risk. Those are vitally important in terms of buildings.

Finally, the committee recommended that the Department should publish plans to enhance compliance with building regulations and minimum EPC requirements.

The clear concern here—we raised this with the Minister and I have raised this with Ministers directly previously—is that we are asking the industry to make changes, but, if the Department do not issue what those requirements are, we are getting buildings put up that accord to the old regulations, not to the new ones. The longer we leave this, the worse it is going to be. It is better to build buildings to the new regulations now and give advance notice to the private sector, rather than trying to retrofit them in the future.

Sarah Healy: Yes, that is very much understood. I am afraid I cannot explain the specifics of those to you at the moment.

Q128 **Bob Blackman:** You have not achieved them by the due dates. What is the plan to achieve them? If it has slipped, that is fair enough; we understand that things slip. Do we now have a revised date for when that will be done?

Sarah Healy: We will have to follow up with you on that one, I am afraid.

Q129 **Bob Blackman:** There are two other recommendations that your Department has identified as high priority. The first is reviewing and updating the national planning policy framework to ensure that net zero



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outcomes are consistently prioritised through the planning system. That does not seem to be happening at the moment. We are waiting for that to happen.

The other is ensuring that planning frameworks and guidance across the UK support a clear presumption against new consents for coal production. That does not seem to have happened either.

All these actions, which are laudable—there is no question whatsoever about that—do not appear to be being delivered. From our perspective, everyone is talking about achieving net zero by certain dates. The closer we get to those dates, if there is a lack of action, the less likely we are to achieve the targets.

Joanna Key: On the planning side of things, as you know, we published the update to the national planning policy framework in December. At that time, the Secretary of State said he wanted to go forward to look at national development management policies, which is something we will be doing over the next six to 12 months. We will be looking in that context at some of these really important issues around net zero and carbon.

Q130 **Bob Blackman:** The Secretary of State has made clear his ambition to make sure we have decent home standards, which clearly is a concern not only in the private sector but in the housing association sector and in not-for-profit organisations, in order to ensure that everyone has a decent home. A lot of these recommendations fit very closely with that. If the Department is not coming out with those requirements, it is very difficult for anyone to achieve them.

Sarah Healy: Yes. We published a consultation that included some of the carbon requirements in the future buildings standard in December. That reflects progress on some of these measures. We will set out for you where the plans are up to and what we expect to happen next.

Q131 **Bob Blackman:** The other issue is that you committed to getting local authorities to plan to deliver net zero almost two years ago. It does not appear that planning policy has changed to support local authorities, when they are considering planning applications, to make sure that the new buildings that go up accord to these requirements.

I could take you to many places in London where things are going on and we know that retrofitting is going to have to take place, whether that is fire safety, energy emissions or the standards that we need to achieve. That is because of, it appears, a lack of guidance from the Department.

I understand that you may not be able to answer today, but, if you could give us a note as to what action is going to be taken by the Department to achieve these, it would be very helpful.

Sarah Healy: Of course, yes.

Q132 **Chair:** I just have one small point. In the priorities for the Department for 2021-22, there was a reference to "greener and more affordable

homes". In 2022-23, the word "greener" has disappeared.

Sarah Healy: I promise that we are still trying to make them greener.

Q133 **Chair:** Why has the word "greener" disappeared?

Sarah Healy: I do not have anything to add to the answer I gave earlier, which is that the Department's overall responsibilities grew during that period of time. We redraft the outcomes on an annual basis. That does not mean we are not still doing some of the things that are not specifically reflected in the headline list of objectives. That is the case with regard to net zero activity as well.

Chair: Thank you, Permanent Secretary. Thank you all very much for coming to give evidence this afternoon. We have discussed quite a wide range of issues and you have promised to come back to us with a lot more detail on some issues, which we appreciate was not readily available to hand but would be very helpful to the Committee to have in written form in due course. Thank you very much indeed. That brings us to the end of the public proceedings for today.