HOUSE OF COMMONS

Communities and Local Government Committee

Oral evidence: DCLG Annual Report and Accounts 2016-17, HC 553

Monday 15 January 2018

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Watch the meeting

Members present: Mr Clive Betts (Chair); Mike Amesbury; Bob Blackman; Helen Hayes; Kevin Hollinrake; Andrew Lewer; Fiona Onasanya; Jo Platt; Liz Twist.

Questions 1 - 103

Witnesses

I: Melanie Dawes CB, Permanent Secretary, Ministry of Housing, Communities and Local Government; Dr Jo Farrar, Director-General, Local Government and Public Services, MHCLG; Tamara Finkelstein, Director-General, Building Safety, MHCLG.

Examination of witnesses

Witnesses: Melanie Dawes CB, Dr Jo Farrar and Tamara Finkelstein.

Q1 **Chair:** Good afternoon, Secretary. Thank you very much for coming this afternoon to give evidence to the Committee. Before we hand over to you, I would just ask Committee members to put on record any particular interests they have that may be relevant to this inquiry. I am a vice-president of the Local Government Association.

Mike Amesbury: I employ a councillor in my office.

Helen Hayes: I also employ a councillor.

Kevin Hollinrake: As do I.

Liz Twist: I am a member of Gateshead Metropolitan Borough Council.

Andrew Lewer: I am a vice-president of the LGA.

Jo Platt: I employ two councillors in my office.

Bob Blackman: I am a vice-president of the LGA.

Chair: Okay, thank you for attending. Perhaps you could just introduce your colleagues at the beginning of our session. That would be helpful.

Melanie Dawes: Yes, thank you very much. Thank you for inviting us again. I am Melanie Dawes, the Permanent Secretary at the Ministry for Housing, Communities and Local Government. Jo Farrar on my right is our director-general for local government and public services, and Tamara Finkelstein has been leading our building safety programme following the Grenfell Tower fire.

Q2 **Chair:** Thank you very much for coming this afternoon. As you say, you are now the Permanent Secretary at the Ministry for Housing, Communities and Local Government. What has changed?

Melanie Dawes: Nothing has changed in terms of our responsibilities as a Department, but adding housing to our name recognises the importance of housing to our work as a Department. It has always been important to our work, of course, but it is particularly central to this Government's agenda. Personally, I think this will be helpful because it will explain more to the people we work with, and indeed to people inside the Department, the full range of our responsibilities.

Q3 **Chair:** So it is a name change, and that is it.

Melanie Dawes: It is essentially a name change. I might add that I am glad we have kept the word "communities". Communities matter, and it is an important part of what my Department does that we invest the time to understand what is going on in communities, whether they are in places, or whether they are faith communities or other types of communities we might be talking about. That determines how people experience public services but also how they prosper and do well.

Q4 **Chair:** Okay, but we need more than a name change. We actually need to build some houses, do we not? Even with the extra resources put into housing programmes, housing capital spend will still be only 50% of what it was in 2010, so you have an uphill battle, have you not?

Melanie Dawes: I am not sure that is the case. I do not have figures for that single year, 2010, in front of me, but we are now looking at more than £44 billion in the four years towards the latter end of this spending review period and beyond. We have had a very significant increase in investment in housing. I absolutely agree with you that changing the name of the Department does not deliver any homes, and we now have to get on and use that additional funding we have been given and deliver. That is what we are gearing up to do.

Q5 **Chair:** But the Secretary of State was talking, before the Budget, quite openly about the sensible way in which the Government could borrow at very low rates of interest and launch a major programme, allowing local authorities to build tens or hundreds of thousands of homes. Your Department sort of lost out, did it not, in the battle with the Treasury over that?

Melanie Dawes: That is not how it feels to me, I have to say. We put a very strong case to the Treasury during the autumn. We brought all our experts in the Homes and Communities Agency, now renamed Homes England, and launched the significantly greater ambition to bring its funding streams together to make a difference. We worked very, very hard and we persuaded the Treasury. My Ministers led that effort. We persuaded the Treasury and our other colleagues of the need to invest. As I said, it is a very significant investment.

In the spending review of 2015, we originally had an allocation of around £22.5 billion in the five years of that spending review. We are now looking at £44 billion, at least, over the five years from 2018-19, so it is a significantly bigger investment. As you say, it is made up of a range of financial instruments that make the most of the Government's balance sheet.

Q6 **Chair:** But the LGA was not terribly impressed, was it? It saw this expectation or possibility of lots of cheap money being borrowed to fund directly provided homes. What it got was potentially £1 billion of headroom on the cap imposed on local authority borrowing, and that was it. It was not terribly impressed.

Melanie Dawes: I am glad the LGA is ambitious and continually pushing for big things from government, but the £1 billion of extra borrowing headroom for local government is quite significant. We are working now on how that should be distributed.

We agreed the five-year rent deal for local authorities and housing associations, which will help them get more stability for their borrowing beyond 2021. We also have more money for social rent and for properties for social rent, which is something that local government, particularly in more high-demand areas of the country, is very pleased to see. This is quite a significant package for local government.

Q7 **Chair:** Right, but in the end, out of all that talk, there is simply £1 billion, and local authorities can put in bids for extra money from it to provide directly funded homes. That is right.

Melanie Dawes: They can bid into the affordable housing programme, which as I say includes social rent for the first time in a number of years. The borrowing headroom helps them to make the most of that capital spending as they make those bids.

Q8 **Chair:** In terms of the change in the budget, it is simply a change of £1 billion.

Melanie Dawes: We also have an increase in the amount of money that is available for social housing as part of the affordable housing programme, so we are now looking at allocations on affordable housing of more than £9 billion over the five years from 2016-17. That is a very significant sum for the affordable housing programme, and it has significantly increased compared to recent years.

Q9 **Chair:** It would be interesting to have a note about how much money is actually available in terms of capital spend compared to 2009-10. The Scrutiny Unit has done some figures for us and has said that in 2016-17 capital spend on housing is still 50% lower than it was in 2009-10. They are the figures we have. You are saying that going forward that figure is higher than the 50%.

Melanie Dawes: Yes. We would be very happy to give you a note with the figures. It is always important not to look at any individual year. The affordable housing programme tends to be allocated at the beginning of a spending review period and then takes some time to ramp up. That affects the figures for 2016-17, so it is lower than some years surrounding it. We are happy to give you some of those data. I am confident that we can say it is more than £9 billion in the five years from 2016-17.

Chair: Okay, we will have that analysis. That will be helpful to the Committee.

Q10 **Liz Twist:** This is about the lifting of the housing revenue account debt cap. The Local Government Association has referred to its wish to see the debt cap lift generally. Was any consideration given to raising the cap for all authorities?

Melanie Dawes: We had a pretty detailed conversation with the Treasury through the autumn on all our individual spending lines. In the end, the more we increase that borrowing line, the more we add to government borrowing, so the Treasury has to make a decision about its allocations, including those borrowing limits, in the round. Overall, it allocated us a significant extra amount of money. The £1 billion was judged by our Ministers collectively to be the right kind of figure for the local government borrowing cap.

Q11 **Liz Twist:** Clearly, that will restrict the ability of some councils to carry on building to invest and achieve the income. It will be a restriction in some local authorities.

Melanie Dawes: Yes. Some local authorities are up against their borrowing caps. Not all of them are, but some are. That extra money is in recognition of that. We will be targeting it particularly on those areas where affordability pressures are greatest. We are working through all that detail at the moment.

Q12 **Bob Blackman:** Could I just flag up one issue? In the note when you clarify this, it would help to know the amount that is being given in direct funding, that which is being given to enable housing associations and other bodies to borrow to increase the amount that overall is being provided and, therefore, what you are looking at in terms of the overall capital investment. If you have that figure to hand, that is great; if not, if that could be included in the note, it would be very helpful.

Melanie Dawes: Yes. Perhaps I can just clarify a bit. We clearly need to give you a detailed set of figures year by year, which we should do in writing so we can be absolutely sure about each figure. Broadly speaking, the relevant funding streams are our capital programme for affordable housing, which I have already mentioned. We also have now a significant portfolio of around £4 billion in what we call the home building fund, which is grants and loans to developers. That is proving very effective at unlocking sites, particularly where small builders are concerned, because it helps with cash flow, and we are getting the money back, so it is a very effective use of the Government's balance sheet.

We also have £2.3 billion for the housing infrastructure fund, which is to enable local areas to bid for what they need to fund infrastructure to get housing sites moving. Then of course we also have the Help to Buy scheme. There are a number of funding streams, not just affordable housing, and the borrowing caps for local government are in addition to all that.

Q13 **Chair:** Moving on to planning consultation, consultations seemed to come out from the Department once a week in the run-up to Christmas, but we understand that a potentially very significant consultation, the review of the NPPF, is going to come sometime soon. There are many other consultations on potential changes around planning. There is the major issue of strengthening the housing delivery test; there is the idea of trying to get planning permissions built out faster; there are first time buyer-led developments; and there is the deallocation of sites from plans.

There are a number of issues there, and I have only referred to a few of them. How is all this going to be put together? In the end, the combination of all these things affects the planning regime, which local authorities have to operate. How are you going to pull all that together in a coherent and sensible way?

Melanie Dawes: It is a very fair challenge. The Government are very active on this front. That is right: planning reform is clearly an important part of what we need to do to mobilise more housebuilding. But you are right: there is a lot going on.

Our answer is that we will brigade as much as possible of this in the new National Planning Policy Framework, which we expect to be ready for consultation in the next few months. I hope it will be just before Easter or thereabouts. That will include measures on which we have already consulted as individual measures—you will see them then for the final time—and some measures announced in the Budget that have not yet been consulted on, but we will be brigading all that together. Following that final consultation, we will publish and implement the new framework in one piece.

Q14 **Chair:** Do you know at this stage precisely how all these other consultations and changes are going to relate to the consultation and review of the NPPF?

Melanie Dawes: This is why the consultation is so important. My planning teams, including our policy experts and my operational planning staff, engage incredibly closely with the sector. We recognise that we need to take into account the capacity of the sector, and we have put more funding in to reflect that in a number of places.

But it is a challenge, and all I can say is that the best way for us to manage it is to try to brigade things together as far as we can. We did that in the annexe to the White Paper in February last year. We put all our planning proposals together in one place, and then we engaged very closely with the experts to make sure that, if people had any questions, they really did have the chance to ask those and see how it all fits together.

Q15 **Chair:** If we were to ask you for a note where you could explain to the Committee all the relevant changes that are likely to come about, the consultations in the next few weeks and months and how they relate to the overall review of the NPPF, would that be available now for us?

Melanie Dawes: Yes, I am sure we could do something along those lines. I hope that most of those measures will be very familiar to you, but I appreciate that seeing them all together is incredibly helpful. I have a full list in front of me here, and it is a long list.

Q16 **Chair:** It is. Right, it would be really helpful to the Committee if you could identify all the things that are potentially going to be consulted on or changed in the next few weeks and months, how they relate to the overall review of the NPPF, how they are tied together, whether they are going to be incorporated into that review or whether they are going to be separate but related to it.

Melanie Dawes: Or whether they require further legislation, exactly.

Chair: That would be really helpful. Thank you very much.

Q17 **Jo Platt:** In terms of the Department's funding for housing, the Help to Buy scheme gets by far the most investment. Obviously, in the autumn Budget a further £10 billion was announced. Is the Department focusing on Help to Buy rather than other schemes in terms of investment?

Melanie Dawes: It is important to emphasise that it is one scheme among many. I was outlining earlier some of the other interventions we are making, but you are right that it is one of the most significant in terms of investment. It is important to say that it is an equity-loan scheme, so the Government expect to recover their investment later. To that extent, it makes quite effective use of the balance sheet. It is slightly different from capital grant funding, where the Government give the money but never expect to see it returned. It is different in that respect, and is treated differently in the national accounts and the Treasury's borrowing figures as a result.

As to why it is such a significant portion of our funding, it is a demand-led scheme and in the end the demand for the scheme has been very significant. It has outstripped our original projections. It is a very important part of the new-build market, particularly supporting first time buyers. The overall ratio of first-time buyers remains around 80% of loans, and it is higher in London where the scheme was extended a little while ago.

It is a demand-led scheme. As to what happens to it beyond 2021, that is something we are considering at the moment. Ministers have said they will hope to say more about that later in the year.

Q18 **Jo Platt:** With that investment concentrating in that one area, is there seemingly little choice for buyers to go into other schemes because the investment has been placed there? They are looking at whatever is out there, and predominantly it is the Help to Buy equity loan. Is there a danger of that?

Melanie Dawes: There are a number of other schemes that support new buyers. The Help to Buy savings scheme, the Help to Buy ISA, is available more broadly. In the affordable housing programme, we also have shared-ownership products and other solutions such as rent to buy, which can work particularly well in some housing markets. Help to Buy is not the only intervention, although it is more significant in financial terms than any of those that I just mentioned.

Were we to extend Help to Buy, for example, to the second-hand market, we would lose the impact on driving new supply, which is what it is particularly designed to address. It is designed to help buyers, but in a way that encourages them to buy new-build and gives certainty to developers that they will be able to find buyers for their products. That is a really important characteristic of the scheme and that is why it is so focused on the new-build sector.

Q19 **Jo Platt:** Going back to that point, we obviously know—it has been out there in the public—that Persimmon, which uses Help to Buy for around half its sales, was due to pay its CEO over £100 million. Again, with it being very profitable for developers, they are going to push that. Again, there are risks and dangers of putting all this investment into the hands of developers. How is that explained?

Melanie Dawes: As I say, we are considering the future of this scheme at the moment. Ministers will say more about that later in the year. In the end, as I said earlier, there is no question that this is providing support to developers, because it is helping them get certainty that they have buyers for their products. There is a very buoyant market at the moment for new-build property, and housebuilders are doing well. The question of any individual bonus for any individual firm is really for them. It would not help for me to comment on that.

Q20 **Jo Platt:** Is that being looked at, though? If certain housebuilders are getting so much money or are paying themselves big bonuses, is that being looked at with regard to the scheme, or are you saying that is a separate issue?

Melanie Dawes: We are looking at the scheme generally and how it works. We commissioned an evaluation a couple of years ago, and we have refreshed that evaluation work. It will be reporting later this year. It is not looking specifically at the impact on bonuses, but it is certainly looking at the impact on the market, so that we can make sure we are getting value for the money we are spending.

Q21 **Helen Hayes:** Further to that last point, I wanted to ask whether you have an up-to-date evaluation of the income distribution of people who are drawing down support through Help to Buy. Which bits of the demographic is it helping? To what extent might those individuals be able to purchase a home under their own steam anyway? Are they genuinely being helped into the market as a consequence of Help to Buy or are they just being helped to buy better properties than they might otherwise be able to access?

What impact is Help to Buy itself having on house prices in different housing markets across the country, in the absence of the country as a whole being up to speed with the numbers of homes we need to meet the demand that there is?

Melanie Dawes: In our evaluation last year—I believe it was February 2017—we published results that looked at the number of buyers who have benefited from this scheme who the evaluation suggested would not otherwise have been able to buy that property. That includes some people who might not have been able to buy at all, but also some who were able to go up to three bedrooms when previously they would only have been able to afford two bedrooms, which maybe means they do not need to move again in a number of years. It is still a benefit. It enables the home to have been built and it supports the industry in that way.

At this moment, I am not able to tell you exactly what the income distribution figures are. I know we have a breakdown for first-time buyers. We are happy to send that evaluation on again. As I say, it was published a little while ago. We are refreshing it, and it will be published later this year. We have work ongoing on that at the moment.

Q22 **Helen Hayes:** What about the impact on local housing markets?

Melanie Dawes: We have some information, as part of the evaluation, that is local as well as national. I cannot at this moment precisely remember what data is national and what is local, but we can send that to you again and try to draw out the key points, if that would be helpful to the Committee. We will also confirm our timings for the next piece of work.

Q23 **Mike Amesbury:** Is it the case that Help to Buy subsidies have been used to escalate the feudal practice of leasehold mis-selling? Going forward, surely that is going to have a detrimental impact in terms of taxpayers' money, as the value of these properties—those that are £1.5 million—are caught in that product.

Melanie Dawes: You are right. The concerns around leasehold have escalated in the last year or so. My Ministers, as you know, have issued some very strong statements of concern, particularly about the sale of leasehold houses with very onerous ground rents that rise rapidly over future years in ways that buyers do not appreciate when they purchase the property. Tamara has been working on our leasehold work while she has been with us in the Department, and we are working on quite a comprehensive set of reforms at the moment.

But you are right: this is something that has escalated quite a lot in recent years, particularly the practice of leasehold houses. There is nothing wrong when you have a shared block. Leasehold is often still a very appropriate form of tenure that can help you share the overall costs in quite a sensible way, but we have been concerned about some of the practices that have developed, yes.

Q24 **Kevin Hollinrake:** Earlier, you pointed out that Help to Buy is an equity loan, and you expect to get that money back. Have you worked out how much you will get back, for instance, if house prices start to fall? If they fell by 10%, your 6 billion quid might end up at 5 billion quid. Have you put any thought into that and how you might mitigate the effects of that?

Melanie Dawes: Yes. In 2012-13, when the Help to Buy scheme was introduced and we began to use guarantee schemes and other forms of loan—not equity loans, but straight loans to developers—the Department at that stage put in place a new risk framework to manage those rather different kinds of financial risks to those we had worked with in the past.

Essentially, in principle, we try to apply to ourselves all the same stress testing and capability testing that you would expect in a bank. We do the annual Bank of England stress scenario, which involves quite hair-raising and challenging economic scenarios with big house price falls and all the associated economic issues you would expect around that, so that we can understand what the issues would be for our portfolio and put in place plans that would give Ministers options for how to respond, should we end up in any of those scenarios.

Q25 **Kevin Hollinrake:** But there are no practical means of mitigation against house price falls, if the economic circumstances dictate that that is the case.

Melanie Dawes: There is a question of the timescale. Let us look at a typical cycle. Of course, I hope these cycles will be reduced in future, if we can build the number of homes we want to and get less dependent on the big asset swings we are all used to in our housing market. Typically, in the past, those cycles have lasted five or perhaps eight years—something in that order of magnitude.

We are lending equity loans here over a 25-year period, so it is really a question of when that loss, if there is a loss, is crystallised. It is not by any means the case, if we were to be in any of those scenarios—I hope we will not be—that we would see those losses, but there are questions as to what we could do to mitigate them.

Were we to be in that kind of economic scenario, there would be quite a good case for the Government continuing to lend their balance sheet into the economy and into the housing market. If you do not do that, we know you can find that the downturn in housing escalates faster and it is harder to climb out of later. These are all policy choices that would have to be made in a scenario that we are not expecting but which, in accordance with the Bank of England stress scenarios, we do contingency planning around.

Q26 **Kevin Hollinrake:** You mentioned stress testing. How much stress testing have you done of the people who have benefited, the borrowers on Help to Buy? Quite a lot of them have an interest-free loan, which ends after that five-year period, and then suddenly they have an increase in the costs of their monthly payments. How much work has been done to make sure those mortgages are still affordable at that point in time?

Melanie Dawes: We will see some of the first borrowers come to that five-year period in the autumn of this year. We have been doing a lot of work to make sure that all our processes and communications are clear and good. There is a fee introduced—it is not an interest payment but a fee—at that five-year point. It remains quite a good deal for any borrower. But we have been doing some work on that to make sure, in particular, that the communications are clear.

Q27 **Kevin Hollinrake:** Presumably those things are taken into account at the point in time that the borrower commits to taking a loan under Help to Buy.

Melanie Dawes: Yes, they are.

Q28 **Bob Blackman:** Turning to the Grenfell Tower fire, could you just update us on the progress of rehousing the victims and their families?

Melanie Dawes: Yes, we are very happy to do that. I will pass to Jo Farrar to talk to you particularly about the rehousing. I just wanted to say by way of introduction that the Grenfell Tower fire has already had a very significant effect on the Department's work. When the fire took place in June, many of my colleagues across the Department responded with fantastic professionalism and commitment, and did work, for example, moving across to Kensington and Chelsea to help them with their rehousing. We also had help from across the Civil Service to mobilise the building safety programme, which Tamara has led.

It had a very big immediate impact on the Department, but it is clearly going to be with us for a number of years, as we think about the wider building safety issues, as we work with the council and as we think about social housing and tenants' voices through new eyes. But perhaps Jo can update you on the rehousing picture.

Bob Blackman: That would be very helpful.

Dr Farrar: Let me just update you on the rehousing numbers. On 18 December, you will know the Secretary of State updated the House of Commons on the rehousing progress. On that date, he reported that 144 households out of a total of 207 from Grenfell Tower and Walk had accepted an offer of either interim or permanent accommodation.

Obviously, we did not expect much movement over Christmas, but of 11 January the figures I now have from Kensington and Chelsea Council show that 147 out of a total of 208—we now have an extra household due to a household split—have accepted an offer of either interim or permanent accommodation. Almost three-quarters of people have now accepted an offer of accommodation.

In terms of moving in, on 18 December, 102 households had moved in, 56 households into interim accommodation and 46 into permanent accommodation. As of 11 January, the figures we now have show that 108 households have moved in, 55 into interim accommodation and 53 into permanent accommodation.

Q29 **Bob Blackman:** It is good news that the offers are being accepted, because they are clearly acceptable, but that still leaves nearly a quarter of the families presumably in bed and breakfast accommodation. Is that right?

Dr Farrar: We have 100 families at the moment remaining in emergency accommodation. That is a mixture of hotels, serviced apartments and with family and friends. Kensington and Chelsea made a decision, which we supported it in, in terms of working with the families at the pace they want to work. However, we feel the pace is not acceptable and we continue to work with Kensington and Chelsea and push it to ensure there is enough choice in terms of quality housing for people to move into.

We have a number of people who do not want to move twice, so they would rather wait for their permanent accommodation, which takes a bit longer. We understand that. But the Secretary of State has introduced a taskforce, one of whom is an expert in housing, which is working with Kensington and Chelsea to help it speed up in terms of moving people out of emergency accommodation.

Q30 **Bob Blackman:** Clearly there is a desire among many of the families to stay in the area, because of links in terms of schools and other accommodation. Obviously, the council has to provide properties for them that are suitable. What is its progress in acquiring those properties? There has been quite a lot of press publicity around what it has been doing, but it is not clear whether it is achieving acquiring this property or whether it is just press speculation. Could you update us on that position?

Dr Farrar: Yes, of course. It has committed and it needs to provide 300 permanent homes. At the moment, it has had offers accepted on 300 homes, but it obviously takes time for conveyancing and for houses to be refurbished to make sure they are available for permanent homes. Kensington and Chelsea has over 200 permanent homes now available to the survivors of Grenfell Tower and Walk. It is making progress, and this is something that we continue to push and question it on. It is right that people have a choice of good quality homes of different sizes, depending on their needs.

Q31 **Bob Blackman:** Under normal circumstances, it would be one reasonable offer. If it was declined, they would be making themselves statutorily homeless. Clearly, we understand the circumstances are such that that cannot be the case, nor should it be the case. But there is a potential view that this could extend for an extended period of time with people waiting and waiting and waiting. What is being done to counsel the families about the acceptability and suitability of offers, and to make sure they are not left in limbo for a protracted period?

Dr Farrar: There is quite an active programme, working with each individual family. Everybody has a dedicated officer working with them to help them with the choice-based system. There is a choice-based system, so as homes become available they are uploaded onto a system that people can look at. They can then express a preference for two or three homes, and they will be shown those homes and can make a decision. Where nothing is suitable, they will then need to look again, but people are seeing that there is a choice of homes. The more that Kensington and Chelsea brings online, the more choice there is for people, and we are seeing homes being accepted.

Q32 **Bob Blackman:** It sounds as though quite a large number are still outstanding completely, and they have not accepted an offer of temporary or permanent housing at all.

Dr Farrar: Yes. Let me make sure; I will go back to the numbers. Yes, 108 households have moved in at the moment.

Melanie Dawes: It is around 60.

Dr Farrar: One hundred and forty-eight have accepted an offer out of a total number of households of 208.

Q33 **Bob Blackman:** Clearly, one of the challenges here is the lack of trust there is among the victims and their belief and confidence in the council to do the work.

Dr Farrar: That has been a factor. We have seen a completely new senior team in the council, and it is working hard to build confidence with the residents there. There is also a new leader and deputy leader, who are again working very hard. The council is also bringing in expertise from outside to help it with its community engagement, recognising that it needs to build trust with the community. It is working closely with the residents' associations in the area to make sure it can build that confidence.

Q34 **Bob Blackman:** I am sure we will return to this in future. Moving to the general challenge of what has gone on with social housing beyond Grenfell Tower and in other local authorities, the Secretary of State told the House that if local authorities cannot afford to carry out the remedial work they should approach the Department. But we have clear evidence of many different local authorities approaching the Department and having their applications rejected. What criteria are being used to provide financial assistance to local authorities when they are being told that their buildings are not fit for purpose?

Tamara Finkelstein: The Secretary of State also made clear that building owners have a responsibility to ensure their buildings are safe. Whether they are in the social or the private sector, they need to prioritise funding to take the action that they need to take. It has also been clear that, as you say, where local authorities are not, for financial reasons, able to do the work they need to do, they should approach us for financial flexibilities to help them with that.

We have been contacted by 36 local authorities. Nine of them are authorities that have aluminium composite material cladding; others have other work they are looking to do. The criterion is that, if there is essential work that is required to make a building safe, we can look at financial flexibilities in terms of having more borrowing headroom or accessing other general funds that normal restrictions would not allow them to use in order to fund the work.

Q35 **Bob Blackman:** How many local authorities have been given that approval?

Tamara Finkelstein: Of the 10 authorities that were directly asking for this help and giving us additional information, for four of them, we have the additional information and we have been working with them on what the right flexibilities are in their circumstance.

Bob Blackman: So none have been granted flexibility yet.

Tamara Finkelstein: At this point we are getting to that point with those four authorities.

Q36 **Bob Blackman:** The plan is for flexibility of borrowing rather than funding.

Tamara Finkelstein: Or access to be able to use general funds. That is the kind of conversation we are having, case by case.

Q37 **Bob Blackman:** But the Government have set aside some money. The Chancellor said that whatever was required would be provided, but we are hearing now that no local authority has been granted any of the money to do any of this work. Is that a fair comment?

Tamara Finkelstein: No, the discussion we had with the Treasury was around ensuring that there was never a financial constraint that should stop a building owner doing the work they need to do. That requires flexibilities, which from the Chancellor's point of view hits the fiscal position, so the flexibilities that are available are either extra borrowing headroom or being able to access funds that normally could not be used for this purpose.

Q38 **Bob Blackman:** To be clear, no local authority at the moment that requires work to be done to make a building safe has been granted financial assistance or borrowing capability from the Department, as things stand.

Tamara Finkelstein: Those conversations are progressing.

Q39 **Bob Blackman:** But none have been granted at the moment. Conversations may be going on; I accept that completely, but no one has financial approval to do any of this work.

Tamara Finkelstein: This is a conversation.

Bob Blackman: I understand about conversations. This is about approval and whether they can get on with the work to make the building safe, knowing that they have the financial capability to finance it.

Tamara Finkelstein: To be clear, work is going on with the authorities that are talking to us about the funding they need. It is not preventing essential work happening. They are having those conversations with us.

Q40 **Bob Blackman:** That is without government support. At the moment, the worst-case scenario is that, after these conversations have taken place, they carry out the work but they do not have the government funds or borrowing approvals to carry it out, so that will have a direct impact on their revenue budgets. Is that fair?

Tamara Finkelstein: The Secretary of State was absolutely clear that we would not see anybody in that position. If they are doing essential work to make a building safe, we will give them the borrowing headroom or flexibilities they need, so they have that confidence. The conversations are case by case in terms of exactly what those flexibilities look like. But he has made that clear.

Melanie Dawes: Can I clarify one thing? They do not need our approval to do the work. They need our approval if they wish to have greater flexibility, so they can go ahead and do the work if they can afford it now.

Bob Blackman: I understand that they can do the work.

Melanie Dawes: Some are already doing that.

Q41 **Bob Blackman:** But how is it financed? At the end of the day, if greater borrowing approval is not given, it impacts the budget they have to do other work. It is quite clear that that is the position.

Tamara Finkelstein: That is the commitment. If you are doing essential work to make a building safe, that flexibility will be in place. We just need to have the conversations to clarify exactly what that looks like with these authorities.

Q42 **Bob Blackman:** So it is fair to say at this point in time no authority has any extra approvals. They may be carrying out the work, but that is at their risk, anyway. They do not have the extra financial approvals. I just want to be clear, because I know of local authorities that have approached the Government and are concerned about the impact on their budgets. If they do not have approval yet and that is still going through the approval process, that is fine.

Tamara Finkelstein: Those conversations are ongoing.

Q43 **Fiona Onasanya:** To touch on the question that you were asking, I am struggling to understand what is being said, so I just wanted some clarification. If councils or local authorities come to the Government, having had advice that these building works are essential, and they do not have sufficient funds within their budget to undertake that work, they will apply to the Government for flexibility. Because they have applied to the Government for flexibility, conversations are being had. However, none of the 36 has been told that the flexibility is granted to it. Is my understanding correct?

Tamara Finkelstein: No authority yet has gone through the whole process.

Q44 **Fiona Onasanya:** None of the 36 has been told as yet in these conversations that the flexibility of its funding will be granted. That is what I am trying to understand.

Melanie Dawes: We simply have not got to that stage of the conversation with anybody yet. In many cases, quite a lot of detailed work needs to be done, to work out what work needs to be done to a building. They have their budgets; they are setting them now for the year ahead. We simply have not got to that level of detail and that final decision-making yet.

Tamara Finkelstein: Four of them have given us the information, we have had very detailed conversations with them and we are right towards the end of that process.

Q45 **Fiona Onasanya:** I understand that. I suppose where I am struggling is that, in my mind, I am thinking that you have 36 local authorities, four of which have given you all the information at the moment, which you are reviewing, but the 36 that have said, "We need to do essential works and we do not have the funding to do them; can we have flexibility?" have not been given an answer to that question.

Tamara Finkelstein: I should be clear: the 36 have not told us they have essential work. Thirty-six councils have approached us with a question around what we might be able to offer, and we have gone back to them. 10 of them look like what they are talking about may be essential works, and we have asked for more information. Four of them have provided that information, and we have had really good discussions with them. We are getting to the end of that process, but that process has not completed for those four.

Q46 **Fiona Onasanya:** So those four are from the 10. You have 36, and it has come down to 10.

Tamara Finkelstein: That is right. We have 36, of which 10, of which four, yes.

Fiona Onasanya: Right, and none of those has been given the information.

Tamara Finkelstein: I suppose I should be clear: with those 36, we are also clear that, if they need to give us more information about the essential nature of what they do, we can take that conversation further.

Q47 **Fiona Onasanya:** But as it stands not one of those, even of the four, has been told that it will have the flexibility it requires. That has not been confirmed to any of them.

Tamara Finkelstein: We are not at that point, but, as I say, the commitment has been made that that flexibility will absolutely be available.

Fiona Onasanya: So it will be available.

Tamara Finkelstein: They can have confidence where essential work needs to be done and they need that flexibility.

Melanie Dawes: I would be concerned if any of the local authorities that have had really substantive dialogue with us, particularly the four that are nearing the end of the process, felt that they did not have someone to talk to or that they were not engaged in quite a detailed and active conversation. Certainly, our feeling is that this dialogue is a good and constructive one. It is not one where we are not answering their letters or their phone calls. It is a good one. It is just complicated, but we have nearly concluded on those four.

Q48 **Fiona Onasanya:** With the situation with Grenfell and the gravity of the situation, my concern is that councils are coming to the Government and explaining that these are essential works. I am not asking about the conversation; I am seeking to clarify whether they have had the conversation with you and been told, "Yes, we will give you the flexibility you require to undertake these essential works".

What I am getting back is not a response to that question. You are telling me that you are having conversations; that is not what I am asking. I am asking if they have been informed that they will have the flexibility they require to undertake those works.

Melanie Dawes: As I said earlier, no, not yet. No authority has yet had confirmation that they will have the flexibility, but the reason for that is because we have not yet concluded those discussions with any individual authority.

For all these buildings, immediate measures were put in place within days of the Grenfell Tower fire. I myself wrote guidance on the Sunday after the fire to all building owners in the social sector. As we began to test those buildings, we very quickly knew which ones were of concern. In every single case, measures have been put in place to make sure the tenants are safe. There has been very good engagement, particularly to be honest where social landlords are concerned, with their tenants to make sure that tenants are having a really good dialogue about their buildings.

This is urgent, but it is also quite complicated in terms of finding contractors. Particularly if the whole of the façade is ACM cladding, it is not a trivial question as to quite how that is planned and delivered. We do not believe we are delaying the work—that is important for me to emphasise—but I appreciate that we need at some point to reach some decisions, and we hope to do that quite soon on some local authorities.

Q49 **Helen Hayes:** I just wanted to push a bit more on the process you are undertaking in dialogue with the local authorities in two respects. The last time he came before the Committee, the Secretary of State was clear that local authorities would be expected to reprioritise existing planned works in order to accommodate essential fire safety works arising from the aftermath of Grenfell Tower. The conversation is clearly not as straightforward as councils coming to your Department and saying, "These are the works we consider to be essential. We do not have the money in our budget".

How is that conversation going? What is the pressure back and forth with the Department on councils to reprioritise? What sorts of impacts are you having conversations with councils about in relation to that reprioritisation? Some element of transparency around that is really important for people to understand. Where is the give and take on councils' existing budgets in relation to flexibility from the Government?

The second thing is the extent to which the retrofitting of sprinklers is considered and accepted by the Government to be essential. We have seen evidence in the Committee of councils coming to the Government and saying, "We want to retrofit sprinklers and we consider it essential", and the former Housing Minister writing back and saying, "We do not consider that to be essential".

It is not unreasonable for the Committee to press you for more detail and more transparency on the nature of those negotiations.

Melanie Dawes: I will ask Tamara to answer both of those questions, but I agree, if we are not somehow managing to explain what we are doing, that is clearly a gap. We are very happy to try to provide more information. It is a little difficult, and we are just at that stage of hopefully reaching some agreements with four local authorities that have gone all the way through the process.

This needs to be on a case-by-case basis. Buildings vary. In some cases, a building may have a relatively small amount of cladding; in others it may be across the whole building. There are going to be different situations in different places, but perhaps Tamara could answer your questions.

Tamara Finkelstein: Yes, I can answer both of those. The first one was around that reprioritisation. The situation where local authorities are coming to us is where they are up against their borrowing limits in terms of the HRA and looking for the flexibility to extend that or use general funds. It is usually that kind of flexibility: they are seeking to get that borrowing headroom raised. It is more about what that looks like. They also sometimes have other ways in which they would like to have flexibilities. They are looking at different elements of policy to get those flexibilities.

Q50 **Helen Hayes:** Are you, for example, saying to councils, "You need to not build homes you had planned to borrow in order to build, because that will give you the borrowing headroom that you would need to borrow for essential fire safety works"? Is that kind of trade-off going on?

Tamara Finkelstein: We are not in general getting into that and second-guessing them on that. It is much more about ensuring we understand whether this is essential to make a building safe and whether they have the headroom to do the borrowing they want to do, rather than getting into the detail of what other reprioritisation they might do.

You asked a question about sprinklers, and you are right. A number of authorities are talking to us about sprinklers. The question we are asking is about what is essential to make a building safe. Of course, the particular thing that is impacting on them is the work we have done around cladding and finding cladding systems they thought were safe on a building and that may no longer be safe. That is therefore work they now have to do.

If sprinklers are part of making the building safe and they are essential, we are absolutely having that conversation about them, but it is more likely to be in the space of cladding, because that is the change that has happened since Grenfell, in terms of the work we have done and finding that this sort of cladding is widespread.

With a high-rise building, we would always say that any building owner should be looking at its safety in the round: at sprinklers, common alarm systems and other things to make that building safe. But the change has been in terms of the cladding, in terms of people being aware that cladding systems that are dangerous are now on buildings. That is where we would expect the bulk of the essential work to be.

Melanie Dawes: If you have unsafe cladding on your building, it is not the case that installing sprinklers will help you around that particular problem. You will need to do something about the cladding itself. It is not either/or; they are tackling different aspects of the safety of a building.

Q51 **Liz Twist:** To follow on from that point, there may be two different elements of a package to make a building safer. We understand that a number of authorities have argued that those works are essential on the advice of the fire services. Who decides what is essential in this case?

Tamara Finkelstein: We are not looking to make a judgment about what is essential in the Department. We are asking the authority to tell us if the building will be unsafe unless it puts in sprinklers. That is part of the conversations we are having, but the judgment on what is essential to make a building safe for the residents to be in is a judgment for the local authority that is coming to us in the case. We are not making a judgment about that.

Q52 **Liz Twist:** But you are making a judgment about the funding flexibilities that might be available to fund that work.

Tamara Finkelstein: If they are coming to us with a case that there is work they have to do to turn a building from being not safe to being safe, if sprinklers are required to do that, we will look at the flexibilities they need.

Liz Twist: Some of the councils we have heard about that have asked for sprinklers have been Croydon, Wandsworth and Westminster. They have said that they believe sprinklers are essential, but they have been told, "It is the landlord's responsibility to make sure it is safe". They have not been granted those flexibilities, in the context of the discussion that no one has yet had those flexibilities. Is the Department not restricting making the decision about what is essential by taking those funding decisions or having those discussions?

Melanie Dawes: We are primarily dealing with a problem of faulty cladding here. It was put up and it is now clear it was not safe, particularly when combined with certain types of insulation. That is our primary focus for this work. For any government support on funding, that has to be our primary focus. As Tamara said, in some circumstances local authorities are very clear that sprinklers are an important part of that package. We have not ruled that out, but we are having individual conversations with individual local authorities about that.

In some cases, councils will also have high-priority housing work that they need to do, either to maintain buildings or for new building. We are, however, simply looking at whether they can afford to do the works on individual buildings. If people want the flexibilities, we will provide them if we are clear they meet the criteria that our Ministers have set out.

I hope that in the next few weeks—it is a matter of weeks—we will have decisions made here on a very complex set of issues, which will give some assurance to the Committee and to local government that we are going to be making some progress in this area. It is complicated, but we have a good track record in DCLG generally of responding to individual funding requests of this nature. It is not just on building safety that we do this; we do it on a number of issues. We are always ready to have a conversation with a local authority about the flexibilities within its budget if it is truly necessary.

Q53 **Liz Twist:** Are those conversations going on about flexibility in order to install sprinkler systems where authorities believe they are essential?

Melanie Dawes: In some cases, sprinklers are part of the conversation.

Tamara Finkelstein: Yes, including among the four we are having conversations with.

Liz Twist: They are part of the conversations, but no decisions have been made yet.

Tamara Finkelstein: Because we are not at that point, yes.

Q54 **Liz Twist:** As you say, Ms Dawes, it is a complex system. But it seems to me that what Grenfell has said is that there is a whole series of circumstances coming together. There is the cladding, but there are also other issues, so this needs to be seen holistically. I would hope that we are taking that holistic view, rather than focusing on one very important element, and looking at other elements to make people safer.

Melanie Dawes: In Dame Judith Hackitt's interim review, she is clear that the primary responsibility here needs to be with the building owner. Somebody in the system who is responsible for putting up, owning and maintaining buildings and working with tenants needs to have that clear responsibility, which perhaps has been lost in recent years, for owning building safety for their building.

As we work through these funding flexibilities with local authorities, we are holding that principle very much in mind. There are some who would have liked us to have said, "This is what you need to do. This is the exact type of cladding you need to put up. Here is clarity for you on when particular features are necessary in order to make a building safe", but we are not doing that. We are saying to a local authority, "You need to make those judgments within the regulatory framework, but we will support you if you need flexibility to do that".

In a way, that is a harder message for us to get across, but it is quite important that we have the accountability in the right place in the future, and that is one of the clear messages from Dame Judith's initial report.

Q55 **Chair:** I want to be absolutely clear, though, because we heard slightly different wording. In the end, it is for the local authority to decide what is essential.

Melanie Dawes: Yes.

Q56 **Chair:** If that local authority cannot carry out essential work because it does not have the capacity in terms of the ability to borrow because of the lack of headroom on the HRA, you will ensure that that flexibility is provided so it can carry out work which it believes is essential as a local authority. That is the position, is it?

Melanie Dawes: Essentially, yes. It is quite a detailed and technical set of questions, but essentially, yes, that is what we hope to be able to provide.

Q57 **Chair:** If you do not think sprinklers are necessary but a local authority does, in the end the local authority judgment will be the one that determines the final decision.

Tamara Finkelstein: It is a judgment that the building is unsafe for residents unless this work is done, which is true of places that have had to put in interim measures to deal with cladding because, unless they do so, that building is not safe for residents to stay in.

Q58 **Chair:** Is it a local authority's decision, based on the advice from its fire authority.

Tamara Finkelstein: It is, yes, but that is a reasonably high bar in terms of a building not being safe.

Q59 **Chair:** So who sets the bar?

Melanie Dawes: Tamara said the building has to be not safe in order for those works to be deemed essential, rather than even safer than it already was.

Chair: Who is making that judgment? Are you making the judgment in the Department?

Melanie Dawes: We asked local authorities in the end to be responsible for that judgment.

Q60 **Chair:** Right, so if they make the judgment and they say, "In our view, to make this building safe we need to put sprinklers in", you are not going to second-guess them.

Melanie Dawes: We would expect them to have regard to the wide array of professional advice that is out there, including the advice of our expert panel.

Q61 **Chair:** If they come back and say, "We have taken that advice; this is our judgment", you are not going to second-guess them.

Melanie Dawes: No.

Chair: That is quite clear.

Q62 **Bob Blackman:** To move on to Dame Judith Hackitt's report, the interim report that she published just before Christmas made a recommendation about the Approved Document B and the clarity of it. What steps has the Department taken to improve that clarity, in order, exactly as you said, to make sure that people who put up buildings, people who own them and people who run them know what is safe and what is not?

Tamara Finkelstein: Dame Judith had a number of interim recommendations. One of them was about clarifying Approved Document B. She has also asked us to look at the structure of the whole set of approved guidance. We have been doing work on Approved Document B for some time. We did that in the wake of the Lakanal fire coroner's report, and have been developing work in that space. We will be building on that and working with technical experts and industry in terms of the clarification of that document. We are also doing work, which we will give to Dame Judith, around how the whole set of guidance could potentially be restructured to meet some of the requirements she placed in her review.

She also asked us to look at desktop studies. We raised some questions around desktop studies in some of our earlier expert panel guidance, so we have said something around desktop studies already. We have asked the British Standards Institution to develop a new standard around desktop studies. We will be putting a very specific amendment to Approved Document B for consultation in that space. Both of those were immediately for government.

She also had a number of recommendations based on the fact that she saw this as a whole system, with the construction industry and building control bodies having an important role to play. We will be following that up as well.

Q63 **Bob Blackman:** In terms of the Approved Document B, when can we see something? Is it going to be consulted on, or what is going to happen?

Tamara Finkelstein: It will absolutely need consultation. We are now working on what might be the timescale on which we can operate. We would hope to make some progress before Dame Judith reports, but there would need to be consultation and so on. I do not have an exact date for you at the moment, but we are moving at pace. We have work on which we can build, because the work that was done already is there for us to build on.

Q64 **Bob Blackman:** This is a priority item and I have no doubt work has been going on. There must be a draft or some progress, in terms of altering this document. Getting to the point of consulting the wider industry on the changes that you are making would seem to be a priority, but you are not able to put a date on when this would happen.

Tamara Finkelstein: It is priority work and it is happening at pace. It will need consultation. Dame Judith has been asked to report in the spring. We would hope to be able to work at that sort of pace to have something to consult on.

Q65 **Bob Blackman:** Spring will start in about six weeks' time, so are we saying that it is a matter of weeks, days, months, quarters?

Tamara Finkelstein: It is not days, but we are talking about months.

Melanie Dawes: I think we are talking about Easter. We are expecting the second part of Dame Judith's report just after Easter. She has her summit next Monday to kick off the dialogue with industry, which is going to be a really important part of how she frames her next set of recommendations. As Tamara said, we are going to be working alongside that timescale so that we can get a document out for consultation as quickly as possible.

Dame Judith has also recommended a much more significant set of changes to restructure and reorder the building regulations. That is a much bigger piece of work.

Bob Blackman: We understand that is bigger.

Melanie Dawes: That short-term clarification work will immediately act on the things that we think are genuinely causing confusion. The use of desktop studies is the issue that she has highlighted, which we will move on to straight away.

Q66 **Bob Blackman:** You would hope to see this consultation document released by Easter. Would it be a six-week response, eight weeks or what?

Tamara Finkelstein: I am not 100% sure, but I think we have to give six months.

Q67 **Bob Blackman:** For consultation?

Tamara Finkelstein: I am not completely precise on exactly how much of that is the consultation and how much is the work afterwards, but it is that sort of thing. I might be able to write in on exactly the dates.

Melanie Dawes: If it would help, we can send you our current expected timescales. As I said, Easter is more like it, rather than the spring beginning in six weeks. It may be just after Easter. It might be just before. There is a parliamentary recess just after Easter, so it might be mid-April or late April, but that is the order of timing that we are working to, to get something out.

Q68 **Bob Blackman:** If you could send us a note, setting out that process, that would be very helpful for clarity.

Melanie Dawes: This is very technical work and we need to get it right.

Bob Blackman: I completely agree with you.

Tamara Finkelstein: We need to work with experts in the industry.

Q69 **Chair:** In the meantime, there are thousands of people living in tower blocks today with combustible material on their outside. Are you comfortable about that?

Melanie Dawes: None of us is comfortable with the circumstances that we found when we began the testing programme that Tamara has overseen immediately after the fire. Most in the industry have said to me that, when they saw Grenfell Tower on fire that terrible morning, they thought this was a rogue building. However, within a matter of days we found that was not the case. I am certainly not comfortable that that is the case.

We have set up a programme here with really rigorous case working and engagement with the building owners. We know that every single one of those buildings has mitigations in place. Whether that is having checked all their fire doors, a waking watch or advice having been given to them by the local fire authorities, they all have mitigations in place.

For the tenants living in those buildings, this is a really difficult time. We acknowledge that, which is one of the reasons we have prioritised this work. I should say, though, that I think within three months we had done a test on every single combination of ACM cladding and insulation that was relevant. That was pretty quick. Where it has been done in other countries, such as Australia, they have not managed to do it that quickly.

That has given a great deal of certainty for the industry, so that building owners are able to plan the work they need to do and be really clear that they have the right fire precautions in place in the short term. Of course, I am not comfortable with this overall situation.

Q70 **Chair:** You have tested the ACM cladding systems. You have not tested any other cladding systems yet, have you?

Melanie Dawes: We have responded where other issues have emerged, for example the concrete panel buildings. We have looked into all those issues. Every single time we have had another occasion to look at, we have responded on that. Again, Tamara can say more about this. The ACM cladding clearly is the immediate concern.

Q71 **Chair:** But there are other forms of cladding system that you have not tested.

Tamara Finkelstein: We had our expert panel, which has been in place since the beginning. We have asked its advice on that, about other sorts of cladding and other issues. It is clear that there is nothing out there of the nature of the ACM that needed the kind of action that we had to take straight away. Where people have raised concerns about other forms of cladding, or sent things in to the Building Research Establishment as part of the programme, we have asked the panel to do some work. We are doing research into other sorts of cladding and have a complete log of the other materials that were sent in at that time. The panel advised us that to do it at that sort of pace was proportionate; there was nothing quite like ACM and the risks it poses out there.

As Melanie said, we are sure that we have interim measures in place on buildings where there are concerns. The fire services have been doing a comprehensive set of visits, both to those buildings and any buildings that they regard as a risk in their areas, to ensure that.

Q72 **Chair:** As you say, in terms of building owners, it is their responsibility, at the end of the day. What is your advice to them where other forms of cladding exist? Are you saying, by and large, there is not a risk there, or are you saying that every building owner should be looking at their building, irrespective of the form of cladding, to make sure that it is safe?

Tamara Finkelstein: Completely, and we have been clear on this from the start and in every piece of advice that we have put there. Building owners need to take expert advice to look at their building in the round, including cladding and other elements, to assure themselves. We have done a number of advice notes to help them on the sort of checks they make around that and the professionals they might want to use.

We are doing work with an industry response group we set up to ensure that, where there are shortages in the skills of the experts that building owners may need to use, we can take actions on that. We have tried to take quite a comprehensive approach to support building owners to do the key thing they have to do, which is to ensure their building is safe.

Q73 **Chair:** Are we getting to a position where we will be saying that combustible materials simply should not exist on the outside of tower blocks?

Melanie Dawes: The building regulations are clear that, overall, the external surface of buildings must resist fire spread. In the end, either you can meet that by not having anything combustible on your building, or you can put up a system that has had a proper test to show that it is okay. That test should not be done on the basis of a desktop study. That has been a problem in the past. If you have a very clever system, the current guidance says that can be used, provided that you have fully tested it. In the end, if you are a building owner you can make your choices on that basis. As I said earlier, we are very keen not to take that accountability.

Should we at some point change the regulatory framework, do as you suggest and simply say "No combustible materials"? That would be a policy change and it is not something that Dame Judith has particularly recommended is an area of ambiguity. We will see how the engagement with the industry over the next few months goes.

Tamara Finkelstein: The first building to fully take off cladding and put cladding up has put up non-combustible solid aluminium cladding. There is quite a lot of work going on to share knowledge across building owners.

Q74 **Chair:** But you are waiting for Dame Judith's report before you move any policy in that regard.

Melanie Dawes: Yes.

Tamara Finkelstein: We have been very clear that there is no reason to wait for Dame Judith to take decisions on putting up cladding that is non-combustible or has met a full-scale test. The expert panel has been clear about that. In general, people are going down the route of non-combustible cladding.

Q75 **Andrew Lewer:** A change of topic: what do you see as the potential benefits and risks of Brexit for the Department, and its responsibilities and priorities?

Melanie Dawes: Compared to most government Departments, Brexit has not had a huge impact on DCLG's business. That is because most of the law that we make as a Department is in fact England-only, but it is not drawn from EU frameworks. There are one or two exceptions for that, but largely it is the case that, unlike Departments such as Defra or BEIS, we do not have a big body of legislation that needs to be repatriated.

The big issues for us are, first, the operation of the EU structural funds, withdrawing from those and devising a replacement system. There are a lot of opportunities to make that more locally-led and streamline the rules and regulations around it. The other big area to mention is the work with local government, which we are very glad to see the Committee is holding hearings on. We want to work with you closely on that.

When you start to think about the opportunities for growth in local areas, that is a question of local government with local enterprise partnerships. We are responsible for leading the development of local industrial strategies across the country. They will need to be thinking about that post-Brexit landscape. That is an area of our work.

There are also things we need to think about in terms of workforces: the housing workforce, the social care workforces. Some of the areas of legislation that local government is dependent on, which are not my Department's legislation but come from other Departments, do indeed come from an EU framework. There is an array of issues for us. As I say, we are not as affected by Brexit as most Departments, but there are some important issues for us.

Q76 **Andrew Lewer:** Similarly, the Secretary of State said it was not as front and centre for DCLG, or son of DCLG now, as other Departments. I accept that from a tactical point of view, in terms of the funding streams point of view, and maybe even a legislative point of view. Strategically, is it not the case that Brexit is potentially big for DCLG via local government and the opportunity for devolution? How much effort is the Department putting in to thinking genuinely strategically about a different way of governance for England, as a result of Brexit, beginning a process that could then go much wider?

Melanie Dawes: In the sense of local industrial strategies, the Government very much want local areas to be thinking about their opportunities and the issues around implementation in the context of Brexit. The overall framework for devolution to local government, either across the UK as a whole or within England, is not something that particularly comes from EU law. There is not necessarily a new opportunity here that is created by Brexit itself. Does Brexit create an opportunity where this is even more necessary and needs to be part of the agenda? Yes, perhaps in some ways.

You are seeing that the Government are still very committed to devolution, particularly in large, mayoral combined authorities. We had the six elections this year. We have been very glad to make further progress with north of Tyne. We are expecting the election in Sheffield city region in the coming months. That agenda is very live. Things like the town deal for Grimsby, which was announced in the Budget in November, are very live areas of government policy. As you say, the Brexit context may well bring those to the fore even more.

Q77 **Andrew Lewer:** Let us move down into something a little more tactical. The Treasury says it will guarantee European Regional Development Fund spending for 2015 to 2020, but then caveats that more than somewhat by saying only if it is in line with strategic priorities. Another caveat is the need for the programme to be value for money. How are the Government going to test those two things?

Melanie Dawes: The first Treasury guarantee was given almost immediately after the referendum in 2016. At that stage, we put in some changes to our process to make sure that, if the Treasury ends up guaranteeing this funding—it may not need to, and we rather hope it will not have to—we will have the right UK-based assurances on value for money and strategic fit that it would need.

That has not involved a substantive change, in the sense that the EU rules already look at the same things that we are concerned about on value for money, but we did not have the ability to be sure about that. That is what we have done. We have changed our processes. We have introduced extra assurances early on in the process, so that local partners do not get confused and find something has gone wrong late on, when it is too hard to fix it. That process has now been in place for about 15 months. I provide a quarterly assurance to the Treasury that it is in place and that we can stand up to the conditions that it needs for its guarantee.

Q78 **Andrew Lewer:** Speaking from the perspective of a former MEP on the Committee on Regional Development, one of the main objections to ERDF there, as well as here, was that it was overly checking and bureaucratic. It looked into ticking boxes a vast amount more than was necessary to get the money out of the door anyway. Is there not a concern that, given all that would still have to be spent for it to be European money, if the Treasury double checks this and you double check that, even less of the original funding will be available for the project in question?

Melanie Dawes: I do not think this will reduce the amount of funding that is available. We have found that our partners locally have worked very constructively with us to introduce it. I appreciate it is, in a sense, a double set of checks for a time period, while we come out of the European budget programme. It is designed for a reason. If at any point we come out of the EU budget sooner than we expect, and that might be the case, for example, in a no-deal scenario, we have the Treasury guarantee there, so that we can, if Ministers choose to, extend the guarantee to cover a longer period of funding. That is our aim in the end: to make sure that our partners have the certainty they need for their planning and delivery.

Q79 **Andrew Lewer:** Given that there is the uncertainty that you have touched upon there, do you have any idea when decisions will be made about which projects will and will not be funded that fall into those criteria?

Melanie Dawes: At the moment, there has been no delay to our overall funding system. As you say, it is a relatively onerous process, in terms of administration. There is no question of that. It is carrying on as normal. We are operating on a business-as-usual basis. We are getting the money out of the door in line with our normal timescales.

As a result of the December agreement with the EU, our current expectation is that we will stay within the EU budget overall until the end of the financial perspective, so that provides a little more certainty. It is possible that will not be the case, particularly in a no-deal scenario. Then we will have the procedures that we put in place to fall back on if we need a Treasury guarantee.

Q80 **Andrew Lewer:** Looking ahead and a little more in house, can you tell us about what cross-departmental work is being undertaken on introducing and operating the proposals for the shared prosperity fund?

Melanie Dawes: We are going to be doing a lot of work on this in the coming months. We have already done preparatory work. That involves the Treasury. It involves other delivery Departments, such as BEIS, also DWP, because of the links with the European Social Fund. There are opportunities here to align some of those funding streams in future, if we can take them. We have also been talking to the devolved Administrations. We have done quite a lot of preparatory work here.

We have a lot of experience, both in MHCLG and in the devolved Administrations, of delivering funding streams in a way that balances value for money, while also avoiding complexity where we do not need it.

There will be a lot more we can do to devolve decision-making, which is quite hard to do within the European funding streams. We have quite a lot of experience on the operational side, but, in the end, these will be quite important fiscal decisions that need to be taken about the overall size of the fund and precisely how it is distributed. Ministers will need to take a view on that later in the year.

Q81 **Andrew Lewer:** Are you alert to the potential for a grab from BEIS, Treasury and others at the expense of local government, or indeed your Department, over this? Is that not proving to be a worry for you at the moment?

Melanie Dawes: As a Permanent Secretary, I am always alert to the activities of other Departments. In the end, these will be decisions for Ministers to take. At the moment, the European funding does go locally. Although it is with relatively complex bureaucracy, it leaves quite a lot of scope for local decision-making and ideas. It will be an important part of my Department's role to emphasise the value of that local determination. I am sure there will also be cases for some national funding streams. We will need to work that through as a matter of policy development.

Q82 **Jo Platt:** To follow up on that, the new shared prosperity fund is what it is going to be. We are not going to be on the old formula, which was the structural fund.

Melanie Dawes: All that is still to be determined. As I say, for the moment, we are expecting to stay within the European budget until 2020, so that is the end of the calendar year 2020. That gives us some time to form the new fund.

Q83 **Jo Platt:** We have the two years.

Melanie Dawes: To do the work, yes.

Q84 **Jo Platt:** Will the aims of the fund still be the same? One was to reduce worklessness, was it not? It was basically to raise aspiration in areas that are quite deprived. Will those aims still stand?

Melanie Dawes: We will expect to be developing this alongside the work on the industrial strategy. The broad aims of the industrial strategy will be the ones that we are working to overall. That gives us quite a range of issues that we can think about.

Q85 **Helen Hayes:** Turning now to social care and the Department's responsibilities, back in November the Competition and Markets Authority published a report into the care home market, which concluded that the current model of service provision was unsustainable without additional public funding. Where is the additional public funding that is needed for our social care system coming from?

Melanie Dawes: If I can give you a bit of an introduction on this, Jo is our expert here and will be able to continue. Generally, it is precisely in recognition of those pressures drawn out in the CMA report that the Government put more money in in the Budget last year.

I have explained to the Committee before that social care was one of the big factors that we took into account when we were thinking about the 2015 spending review. We keep that very live and under review as a Department, working closely with the Department of Health and Social Care, as it is now named, and local government.

Those social care pressures are acknowledged. They are very real. We put more money towards them, including through the social care precept and so on, in the past. All the measures that we put in place so far are for this spending review, and of course we will need to come back to the longer term questions after these current budget allocations have run their course. That is going to be a matter for the next spending review. It will also bring into play the work on the social care Green Paper that will now be led by the Department of Health and Social Care.

Dr Farrar: To add to what the Permanent Secretary has been saying, since the spending review in 2015 we have put over £9 billion, and this year £2 billion, into social care services. Of course, the CMA report is retrospective, so it cannot yet take account of some of that new money that is being spent. We will want to have a look at how that is being spent.

We are seeing positive signs that it is making an impact on the sector. We have seen a real improvement in delayed transfers of care, for example, which have dropped a further 9%, in our latest figures, between October and November. As Melanie says, we accept that everything is not a long-term solution. We need to work closely with our colleagues in the Department of Health and Social Care, who obviously own the policy on this, to make sure that we have a long-term sustainable solution for adult social care.

Q86 **Helen Hayes:** Are you anticipating any major change in the distribution of responsibilities between your Department and the Department of Health and Social Care, following the renaming of that Department?

Melanie Dawes: No, we are not. The Department of Health, as it was, has always led overall on social care. This is not about the relationship between us and the Department. We expect to still work very closely with it, given that social care, both for working age adults and older people, is such a big part of local authority budgets now. We will remain working closely with it, bringing our expertise to bear, but it remains overall responsible for the policy.

Q87 **Helen Hayes:** You are not anticipating any shift in who has responsibility for the funding and the distribution of funding for social care.

Melanie Dawes: No, not at this stage.

Dr Farrar: We are not. They have obviously taken responsibility for the social care Green Paper from the Cabinet Office. We second a small number of staff into that team. We will now second that to the Department of Health and Social Care. That is the major impact on our Department.

Q88 **Helen Hayes:** There is still a significant shortfall in social care funding. That is acknowledged and agreed to be the case by all three of the main health think tanks. That is a shortfall of at least £2.5 billion by 2019-20. In the interim, lots of local authorities are facing significant challenges around the financial sustainability of care home providers. What plans are in place to help local authorities in a situation where a major care home provider goes bust in their area?

Dr Farrar: The £2 billion this year was in explicit recognition of issues such as the social care market. We expect local authorities to be using some of that £2 billion to make sure that sector is sustainable. In fact, we are seeing some examples of that.

Local authorities are used to people coming in and out of the market, and pressure on that system. They have very good contingency plans in place to make sure that people continue to receive care if particular providers in the market become fragile. As a former chief executive, I have had to manage that and have seen how these contingency plans work.

Local authorities also work really closely with the Care Quality Commission, which has a responsibility through the market oversight scheme, which was part of the Care Act, to look at the sustainability of care organisations and let local authorities know when particularly big providers look as if they are in danger of failing or not being able to provide services, so the authorities can take measures in advance. The long-term funding situation will need to be looked at as part of the social care Green Paper. As I said, we are hoping the £2 billion we put into the spring Budget should respond to some of these pressures.

Q89 **Helen Hayes:** I think I know the answer to this question, but can you give us any insights into the ways in which the Green Paper is going to be looking at the long-term sustainability issues for social care? In the Green Paper, will we see the big solution that the Committee has previously recommended the Government take up around a major rethink of the way that social care is funded, in order to get to a situation where we have sustainability in this important sector for our ageing population into the future?

Dr Farrar: It would be wrong for us to pre-empt that, because we are looking at a number of options, and obviously these are decisions for Ministers to take. The Green Paper is due in the summer, so hopefully you will not have too much longer to wait until you can start seeing some of the options that are being put forward.

Q90 **Chair:** By summer, do you mean before the summer recess?

Dr Farrar: I am not exactly sure yet. I think that is the aim.

Q91 **Chair:** Summer could be September.

Dr Farrar: It could be, and obviously the Department of Health and Social Care is considering when the best time will be to put forward these options. There are a lot of technical things to work through.

Q92 **Chair:** Is the new departmental name of "Health and Social Care" just a rebadge? It does not take away any of your responsibilities on social care, does it?

Melanie Dawes: No, it does not, but it moves the work that the Cabinet Office was leading to the Department. It emphasises the importance of social care to the Department's remit.

Q93 **Mike Amesbury:** The local government finance settlement allows more flexibility for council tax, but the LGA has calculated that this will raise only an additional £540 million for councils, compared to a funding gap of £5.8 billion in 2019-20. What will your Department do to address this shortfall?

Melanie Dawes: Again, I will ask Jo to say a bit more about how we are handling the settlement. Overall, we allocated budgets in the spending review, for the first time giving local authorities a four-year deal to give them a bit more certainty. Of course, it is a time of tight budgets for local government. We know that.

We do not accept all the figures that you sometimes hear. I recognise we have a number of vice-presidents of the LGA in the room, but I would not expect the LGA to do anything other than champion the sector and its funding needs very vigorously. We will need to look at all this very closely as we come to the next spending review conversations, which will start to set budgets beyond 2020 and into the early years of the next decade. That goes to what we were just discussing, the review of social care, and it also goes to business rates and the fair funding system for local authorities' distributions across the piece.

We are taking some work ahead now. We have given more flexibility for next year, as you mentioned, but there are other areas of our work that are more about setting the longer term system from 2020 onwards. We are trying to keep those two in balance, and to keep up a very collaborative dialogue with the LGA as we do so. We have a very close working relationship with the LGA, both on a technical level and at the more strategic level.

Q94 **Mike Amesbury:** What is it about those figures that you do not accept? They are saying £540 million or so will be raised and there is a shortfall, according to the LGA, of £5.8 billion. What do you not accept about that?

Melanie Dawes: We will have to look at this in the round when we come to the next spending review. We recognise that the budgets are tight for local government, and it has done incredibly well in finding efficiencies, new ways of commissioning services and so on. I would not expect the LGA to do anything other than champion the sector.

I am not disputing the specific number. I do not know whether Jo can comment on that, about what the council tax flexibility will raise. Large figures about gaps in funding are not something that we would want to say we agree with at this stage. We clearly need to do work in the next spending review to make sure that we understand the pressures, in order to advise Ministers as thoroughly as we can.

Dr Farrar: One of the things we are doing, as Melanie said, which has been welcomed by local government and the Local Government Association has been pushing us for, is to undertake a fair funding review. That is now out for consultation. That will give local government an opportunity to feed back to us where it thinks the pressures are and where we need to change the funding system, if we do. That consultation will close in March. It is a 12-week consultation. That will allow us to assess and look at the funding of local authorities, taking account of a range of measures and services.

It also allows us to do some more specific work on areas where local government is saying that it has real pressure, as we did with adult social care. We want to work closely with the Department for Education, for example, on children's social care. We have a review at the moment, alongside DfE and the Treasury, to look at the cost drivers and scope for efficiency in children's social care, in a similar way as we did with adult social care, so that we can start understanding that, in order to feed into the fair funding review and the next spending review.

Q95 **Mike Amesbury:** That leads me on to the next question. Different local authorities have different levels of need. There is not a direct correlation between what you can raise from council tax and local services. Halton Borough Council, a small council in my constituency, is very different to Surrey County Council. Going forward, how are you going to address that?

Dr Farrar: That is exactly why we are doing the fair funding review. It will look at the relative needs of authorities, but it will also look at the resources available, so their ability to raise income. It will assess how much authorities need to provide the services that they do.

Alongside that, we are also looking at the devolution of more business rates. That is generally welcomed by local government, but also comes with a top-up and tariff system, which allows us to spread resources across the system, as does the revenue support grant. We have committed to at least 75% business rate retention for 2021. We will be working that system alongside the fair funding review to look at what the best distribution for local authorities is.

As Melanie said, at the moment 97% of authorities have signed up to a four-year funding deal, and we still have two years to go in that funding deal. This is looking at the years of 2020 and 2021.

Q96 **Mike Amesbury:** Many are now struggling to provide essential services. You mentioned children's services. That is a very good example.

Dr Farrar: They have agreed to the four-year funding deal. Where there are specific pressures, as there was with adult social care, we look at that as part of each year's settlement. There will be a number of things in this year's settlement where we have responded to questions from local government about the pressures it is facing.

We have had two years of this spending deal in place at the moment. We now need to have a comprehensive look, through the fair funding review, at how we manage it for the years after that. Alongside that, we also are able to test things, because we have some business rates pilots piloting 100% business rates. We can test things like the implication of retaining business rates on rural areas versus urban areas and other issues such as that.

Q97 **Andrew Lewer:** I will follow up from Mr Amesbury's point there about incentivising local authorities with business rates retention and so on. How do you achieve fairness in the concept of encouraging authorities to be successful and bring in more money when, on the other hand, the authorities that fail to bring in more money therefore have more deprivation problems and a need for more funding as a result?

Dr Farrar: That is why we have a top-up and tariff system, in recognition of that. There are authorities that would benefit greatly from business rates retention and others that would not. We need to keep that system in place. For the 100% business rate pilots, we have been able to introduce the element of top-up and tariff for the whole 100%. As part of the fair funding review, we will look at the actual distribution and thoroughly review the whole system.

You are right: obviously some authorities benefit more from growth. It is very early days on the 100% pilots, but we are seeing authorities put money into investment funds for the benefit of a wider area. We are seeing more business rate pools and investment funds that will benefit the wider area.

Q98 **Liz Twist:** On the issue of fair funding and business rates, could you update us on the timescale for the fair funding review and confirm whether the new baseline will be set in time for that 75% retention of business rates in 2020-21?

Dr Farrar: Yes, the intention is to bring everything together so that we will introduce the 75% retention at the same time as the baseline. We need to see what the fair funding review says, and the results of the consultation, before we can commit firmly to that. It is certainly our intention to bring everything together, alongside a spending review, working closely with our colleagues in the Treasury.

Q99 **Liz Twist:** So it is big bang here. I noticed when you were talking about business rates you said we are starting with 75%. Does that mean there is still the option to look at increasing business rates retention?

Dr Farrar: Government had committed to 100% business rates retention. We lost the Bill and, with the absence of parliamentary time to introduce a new Bill, we are unable to move to 100% retention. We cannot do that without legislation, so we have been working closely with the sector. We have a lot of support for moving to 75% business rates retention in 2020-21, because that allows us to devolve things like the revenue support grant, the rural services delivery grant, the public health grant and the GLA transport grant. These are services that local government is already providing, so it does not add any new pressures to local government, but it allows us the maximum business rates retention that we can do without introducing new pressures.

Melanie Dawes: We can go up to nearly 100% without legislation. We can go up to 99.9%, so we have chosen 75% as a feasible figure. We have the right overall number of grants that we can roll into the system to facilitate that level of retention. There is nothing to stop us going further in future. If at some point we have a legislative framework, we will be able to go there, so the options are still on the table.

Q100 **Liz Twist:** That was going to be one of my questions, because, when we had the ministerial team in much earlier in this session, there was talk of being able to go up to 99% without legislation. I just wondered where that has gone. Is the intention still to look at expanding the amount?

Dr Farrar: The 75% has been through consultation with the sector, so the sector is very comfortable with 75% retention in 2021. The aim is to review that, make sure that the system is working and then look at whether we can go further.

Q101 **Liz Twist:** In the Budget, the Chancellor announced he was reducing business rates, but that central government would be covering any shortfalls. How are local authorities going to be compensated for that?

Dr Farrar: I think you are talking here about the change from RPI to CPI announced in the Budget. We compensate local authorities. We pay them on the basis of a forecast on a quarterly basis, and then adjust that at the end of the year, in a similar way that we have done in many years, in 2014-15, 2015-16, and for the small business rate relief in April 2017. Local authorities are used to that, and we have committed to compensating them for that change.

Q102 **Chair:** Finally, in terms of local authorities' investments in commercial activities, there has been a bit of press coverage about the issue. Is it slightly strange that local authorities can spend money buying up a commercial development at the other end of the country, but cannot spend the same resources borrowing to build social housing in their own area?

Melanie Dawes: I will let Jo come in on some of this in a moment. Having led a local authority, she has a lot of experience of this sort of activity and making it work. You are asking absolutely the right questions. We are asking these ourselves.

At the moment, as you know, we have a consultation out. The spirit of that consultation is that councils need to be pretty careful with pure commercial activities that are entirely about getting a return. In the work that we have done so far, we have found that most of the commercial opportunities that local authorities are investing in are also about generating benefits for their communities. Particularly when they are investments in their communities, they are about regeneration, tackling fuel poverty and so on. We have that consultation out at the moment.

The general power of competence gave significantly more latitude to local authorities. That was a specific government intention. The piece of work that we have been doing in the last few months is the kind of review we need to do, to make sure that the overall health of the system is good.

Q103 **Chair:** To make sure you do not stop things that are beneficial.

Melanie Dawes: That we do not stop things that are beneficial, but also that we understand the overall risk. As accounting officer, I discuss this from time to time with the Public Accounts Committee, as I am sure you are aware. These issues are very high up in my and Jo's minds.

Dr Farrar: For us, it is helping local authorities to strike the right balance about what can bring benefit to their area. For example, you will see some really important regeneration projects brought forward by local authorities in partnership with others, which would only have been brought forward with that involvement of the local authority. But we need to protect the taxpayer from undue risk. That is the point of the consultation that we have out at the moment. We will be looking at the framework to make sure that we get the right balance in place, so that local authorities can still invest in important things like regeneration, but they are not taking undue risk.

Chair: There will probably be other questions of detail that we have for you. It might be helpful if we write to you about those, about staffing, performance and other issues. You could then write back to the Committee on them, rather than taking more time at this session today.

Melanie Dawes: We would be happy to do that, yes.

Chair: Thank you very much for coming to give evidence to the Committee today on a wide range of issues.