HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Greater Cambridge Greater Peterborough Local Enterprise Partnership, HC 896

Monday 22 January 2018

Ordered by the House of Commons to be published on 22 January 2018.

Watch the meeting

Members present: Sir Geoffrey Clifton-Brown (Chair); Bim Afolami; Heidi Allen; Caroline Flint; Shabana Mahmood; Layla Moran; Gareth Snell.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Aileen Murphie, Director, NAO, and Richard Brown, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-135

Witnesses

I: Gillian Beasley, Chief Executive, Cambridgeshire County Council, and Mark Reeve, former Chair, Greater Cambridge Greater Peterborough Local Enterprise Partnership.

II: Melanie Dawes, Permanent Secretary, Ministry of Housing, Communities and Local Government, Simon Ridley, Director General, Decentralisation and Growth, Ministry of Housing, Communities and Local Government, and Mary Ney, Non-Executive Director, Ministry of Housing, Communities and Local Government.

III: Melanie Dawes, Permanent Secretary, Ministry of Housing, Communities and Local Government, and Simon Ridley, Director General, Decentralisation and Growth, Ministry of Housing, Communities and Local Government.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Investigation into the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership (HC 410)

Examination of witnesses

Witnesses: Gillian Beasley and Mark Reeve.

Q1 **Chair:** Good afternoon, everybody. Welcome to today's session. For those who follow us on social media, the hashtag for the session is #LEP. Today we are considering the NAO's Report on the governance of Greater Cambridge Greater Peterborough Local Enterprise Partnership, and what it tells us about the Department's assurances on all LEPs. We will also ask some questions on the Government's response to our Report on housing in England in a session after this one.

We have been here before with the LEPs, on more than one occasion. The NAO's Report sets out a fairly stark picture of a system that was not strong enough, and where the checks and balances did not operate as Parliament has a right to expect. In particular, the NAO previously reported, in 2013, that the links between the LEPs and the local democratic process were "complex and weak", and that the LEPs did not have to obey the "same transparency requirements as local authorities". In 2016, in another Report, the NAO reported that the Department had adopted a "light touch" approach to overseeing LEPs, and that its assurance mechanisms were "not yet tested".

We can see that the Department has once again reviewed the assurance framework, and has accepted all the recommendations made by Mary Ney. The big question that we will want to find the answer to this afternoon is whether the Government are now finally sure that their oversight of LEPs is properly funded. That is fundamental, because of the important place that LEPs have in taking forward our industrial strategy.

We will then go on to questions on housing, which I will talk about when we get there. In the meanwhile, to help us with our inquiry we are pleased to welcome, on my left, Gillian Beasley, the chief executive of Cambridgeshire County Council, and Mark Reeve, the former chair of Greater Cambridge Greater Peterborough Local Enterprise Partnership. Welcome to both of you, and thank you very much for coming this afternoon. To start with, can I ask what your role was in the governance of this particular LEP? Perhaps I could ask you that first, Gillian Beasley, and then Mark Reeve after that.

Gillian Beasley: Cambridgeshire County Council is the accountable body and exercises its functions through its section 151 officer. In the circumstances in question, with the National Audit Office Report, we had a role to play in the sign-off of the assurance framework by 28 February

2017. There was, as you know from the chronology, a subsequent sign-off at the end of July. We played other roles throughout that period, which I and a couple of our councillors became involved in, but under the assurance framework it is primarily a section 151 officer role as the accountable officer to the accountable body, and that is the role that we played in the sign-off of the assurance framework at two times: at the end of February and subsequently at the end of July.

Q2 **Chair:** I am sure we will have more questions about that in a little while, but perhaps I can turn to you, Mark Reeve, and ask what your role was in this.

Mark Reeve: Thank you, Chair. From my perspective, one can contextualise this on the basis that the LEP chair and the LEP private sector board members were doing this on a part-time basis—I am sure we are all aware of that—and therefore relied heavily on not only the accountable body but the executive of the enterprise partnership to ensure that governance was in order. Therefore, my role around governance was to lead the board and to seek the assurance of the executive and the accountable body that that was in order, and that is what we did.

Q3 **Chair:** Didn't you have a further role? Were you involved with the association of LEPs?

Mark Reeve: The LEPs formed a network called the LEP Network, and I was one of the nine LEP chairs that sat on the LEP Network.

Q4 **Chair:** So you were able to absorb best practice from around those nine LEPs.

Mark Reeve: Certainly the role of the network was to try to speak for all the LEPs and communicate with one voice to the Government. In terms of absorbing best practice, you are talking about an entity that met every six weeks for two hours. The process there was really to interact with the Government to ensure that there was some consistency in the executive of the LEP Network and to transmit that across all of the LEPs.

Q5 **Chair:** Presumably that network existed to promote those nine LEPs, so you must have been interested in promoting best practice.

Mark Reeve: The LEP Network existed to represent all 39 LEPs, as there were originally—all 38, as they became. If you go to the LEP Network's website and look at what it does and what it should do, it did exactly that. It had its own executive, which was trying to share best practice and connect LEPs with similar interests and skills to try to ensure that they were learning from each other or joining up on certain things.

Q6 **Chair:** I am struggling slightly. If you were chairman of this body—

Mark Reeve: Excuse me, Sir. I was not chairman of that body. There was no chairman of that body.

Q7 **Chair:** What was your role in it?

Mark Reeve: I was one of the nine chairs that sat on it, and I chaired some of the meetings.

Q8 **Chair:** Yes. But by doing that work and having oversight of all 39 LEPs as one of the nine chairs, you were able to see which good practice the best ones adopted, so how was it that your LEP got into such difficulties over transparency and accountability?

Mark Reeve: At no time did the LEP Network do any study or account of accountability. Best practice was about sharing about deliverables rather than transparency. The transparency proposition was different for every LEP. It has always been very difficult with 39 LEPs that all have different models to try to work out one generic model. There was also potential for LEPs to look at their own place and not take account of others. In terms of what the LEP Network did, it certainly did not undertake a role of policing the LEPs or anything of that nature.

Q9 **Chair:** Can we come on to your role with the county council and the section 151 procedure, Ms Beasley? How do you feel you performed your role, given the fact that you signed it off in both February and April, and then had to come back to it a third time to make sure that this LEP was performing to the code? How do you feel the section 151 procedure went?

Gillian Beasley: I have spoken in detail to the section 151 officer who discharged this responsibility. He took the view that his role was to check that the assurance framework had been agreed by the LEP and that the components within the national assurance framework were found in the local assurance framework. It was very clear to him at that time that he was not to look at the adequacy of those documents, because there was no standard against which he should judge that. At the end of January, for example, the LEP redid its register of interests and its policy on interests. From my viewpoint—I have said this in evidence I have submitted—that was not up to a local authority standard, but it did have some provisions about board members declaring their membership on bodies. I think the issue for him is that he thought his role was to read the national assurance framework, compare it with the local assurance framework and check that all the components were there, with it being for the LEP to determine adequacy, because there was no standard set by the national assurance framework as to how those documents complied.

It became clear after the assurance framework was signed off in February. I had been having conversations with Mr Reeve and others about the register of interests and the policy on interests, because I took a view as a monitoring officer that it needed to be more detailed. I applied the standard I am quite used to in local government, which is not just declaration of bodies; you need to talk about land, property and other financial interests. It is also about how you declare interests and how the minutes reflect that. It is also about how board members are trained in that difficult area. I have found in my practice in local governance that working out whether you have got an interest is something you have to consider carefully against the item on the agenda. So there were all of those things and subsequent to the sign-off, Mr Reeve and I had a discussion about that. I said to my section 151 officer that I was better placed to have that conversation—and indeed did have it—with Mr Reeve, I think on 6 April. I then followed that up with an email.

On the transparency provisions, the wording in the local assurance framework met what the national assurance framework said, but subsequently at two board meetings, the agendas were sent out without prior publication of the papers. I spoke to Mr Reeve about that again and drafted some paragraphs, as the monitoring officer would, that would create the right kind of transparency, which is about how you put papers out. I think the section 151 officer interpreted his position literally in that way, and then when we looked at subsequent practice we all realised that further work needed to be done, which was done between Mr Reeve and I. That led to a meeting in April, where those matters were attended to, and then finally in July. There were two sign-offs by the 151 officer: one in February and then subsequently in July.

I have looked at Mary Ney's report, and I think there is now some very clear, consistent guidance to section 151 officers on their responsibilities. But I also feel—this is about the Mary Ney report—that 151 officers are trained to look at financial governance but not at what I call constitutional governance. The governance of LEPs could be strengthened if the section 151 officer was required to consult with the monitoring officer, because I picked up those things that a 151 officer probably would not have. I think that would help strengthen governance as we move forward with the implementation of Mary Ney's report.

Q10 **Chair:** That is very helpful. Mr Reeve, on 28 February you had that advice—you had a warning from the county council—that your transparency and accountability was not entirely as it should be. What actions did you subsequently take?

Mark Reeve: I am not sure that we had a warning on 28 February.

Q11 **Chair:** Well, Ms Beasley said that she flagged up to you after 28 February that you had shortcomings in how the LEP operated in terms of transparency and accountability.

Mark Reeve: Having seen Ms Beasley's written evidence, which I concur with, what happened was that the 151 officer confirmed that we were in accordance with the national assurance framework by 28 February, which is what was required by CLG. Therefore, what was raised thereafter were issues around the conflicts of interest policy and the timing of publication of the minutes. They were dealt with as expeditiously as they could be, given the timing of meetings and other things the LEP had.

The 151 officer then brought in an improvement plan, which was adopted immediately, and the executive were instructed to work with the 151 officer to bring that plan to fruition. On 23 July, the 151 officer again wrote to CLG, confirming we were compliant with the national assurance framework.

Q12 **Chair:** But your board must have had concerns, must it not, because it took legal advice after 28 February? Despite the fact that the 151 procedure had been signed off, you—or somebody on your board—must have had concerns that you were still not fully compliant. Why was that?

Mark Reeve: The advice and other matters were brought to the attention of the LEP by CLG local colleagues, and that advice was taken on those specific matters, but it was not with regard to compliance with the national assurance framework.

Q13 **Chair:** I thought it was to do with your conflicts of interest and whether they needed to be disclosed under the Nolan principles.

Mark Reeve: The conflict of interest that was considered in respect of my position has been clearly played out through legal advice both to DCLG and, indeed, to the LEP. That is a matter of fact and evidence, and there is nothing further to be said about that from my perspective.

Q14 **Gareth Snell:** You have both very eloquently described what the governance failures were. I disagree with you ever so slightly about the role of a section 151 officer compared to a monitoring officer, Ms Beasley. I would have hoped that a section 151 officer worth their salt would also have picked up on the constitutional arrangements, not just the financial arrangements put in front of them. Can I ask you a reworded version of the Chair's question? How much responsibility does each of you think you bear for the governance failure? You have talked very eloquently about what those failures were, but as the chief executive of the tier 1 authority and as the chair of the LEP itself, how much responsibility do you think you have for the failures in governance?

Gillian Beasley: I take my role very seriously, and that is why I spent some time after the assurance framework was signed off by my 151 officer to support good governance in the LEP. I had previously helped the leader of my council, who was on the LEP, with some matters beforehand on 17 January. The way I approached it was, "This is a new framework and we need to assist the LEP in complying with it." That is why I spent some time drafting provisions, talking to Mr Reeve and getting to a position where they could move—I think it was at the April meeting—that the register of interests and transparency provisions be put right, to the point where the governance framework could be signed off. I took it very seriously and took a personal interest, even though the responsibility and accountability was with the section 151 officer. I felt that that was my responsibility, and I took it seriously.

Mark Reeve: Just to resonate with that, you will have heard that we spoke about this and met about this. I took it incredibly seriously. I was advised very well by Ms Beasley on those matters at the time. We took that advice, we progressed to work with the 151 officer and we made the necessary changes.

Q15 **Gareth Snell:** But, Mr Reeve, being chair of a local enterprise partnership is a demanding role. It is essentially there to steer the organisation through whatever constitutional format to a point where local authorities and the private sector are working hand in glove to deliver economically prosperous development. How much support and training did you receive prior to taking on that role? I accept Ms Beasley's point that the corporate governance of an organisation is something that section 151 and monitoring officers spend years and years developing. I appreciate that you were the chair, but how much personal interest and involvement did you believe you were expected to take? Things like having a register of interests are quite basic, and even if you had not had that help and support, I would have hoped that people would recognise that they were needed, particularly if they were taking on such a substantive role as the chair of a local enterprise partnership.

Mark Reeve: From the chair's perspective—I cannot speak for all chairs, but certainly from my perspective—what we had around the table were five local authority leaders. Those five local authority leaders were members of the LEP, and brought with them all the training, experience, understanding and officer support. We had an accountable body sitting in the background, and any of the decisions the enterprise partnership made had to be held accountable to that body before those moneys could be expended. If you can imagine, from the private sector member's perspective, there was a high level of potential transparency and of integration into the public sector system around those decisions and how they would be expended. Beyond that, with our double lock, we had 14 or 15 local authority leaders who formed a leaders committee, which met before the board or around the time of the board, and who were all informed of the same position. In answer to your question, when you look back at the original framework under which the enterprise partnerships were set up and what that required of the enterprise partnership—or indeed of any member or the chair—the fact that we had an accountable body gave us some comfort that all those matters would either be brought to the attention of the LEP board or were being dealt with through those processes.

Q16 **Gareth Snell:** Is it not an abdication of your responsibility to say, "We have councillors around the table and we have a council sat behind us so it was their job to fix it"?

Mark Reeve: I do not think it is an abdication; I think it is a sharing of the position. This is a coming together of the public and private sector with public money and public people around the table.

Q17 **Gareth Snell:** I understand how LEPs work, Mr Reeve—I was a member of one when I was the leader of my local authority—but when I went to Staffordshire's LEP it was not my responsibility to make sure that the chair had done the due diligence and necessary paperwork to ensure that there was a register of interests. I am trying to extract what you thought your role as the chair should have been in relation to ensuring that there was good governance and transparency around decision making. When the frameworks for these were originally set up, it was always intended that the private sector would take a lead—they were never intended to be local authority-led bodies.

Mark Reeve: Our view was that we had an accountable body, which took that responsibility.

Q18 **Gareth Snell:** But that would have been the council again—the accountable body would have been the public sector organisation. What I am asking, Mr Reeve, is what did you expect in your capacity as the private sector chair and business lead? If the anticipation placed upon you by the local authority was greater than you were expecting, please say so. In terms of what you were expecting to have to do, how much time did you spend as chair preparing and making sure that governance was correct, that paperwork was done on time, or that you had a correct register of declarable interests? You are essentially the figurehead of that organisation. The Government have determined that private sector, business-led bodies will deliver this. To say that you have an accountable body that was ultimately the local county council seems to shift the burden away from what the framework was meant to achieve—to say that it is up to the councils again.

Mark Reeve: It is the same question, isn't it? On the two days a month that I was involved and in the two hours a month that we met, what responsibility did I take as the chair for ensuring that those processes and governance were in place? With an executive that had advisers from the county council and Peterborough City Council embedded in it from the outset, and an accountable body, we took comfort in the fact that that was sufficient for supporting those processes, that transparency and a register of interests. Whether that was correct, you may question, but it is certainly a reasonable assumption.

Q19 **Gareth Snell:** Finally, on that point, may I ask you, Ms Beasley, as the chief exec of the accountable organisation, how much of the work that you subsequently had to do to get the LEP fit and ready did you expect to fall on the burden of the local authority when, as I said in my previous point, they were always set up as and meant to be industry and business-led organisations that worked with local authorities but did not give instructions to them?

Gillian Beasley: I had not considered that. I just did it because I thought it was absolutely required. I probably did not expect to have to write a paragraph in the constitutional document, but as I said, it was within my expertise and I felt it could get the LEP into a position. We were very supportive of the LEP because it has an important role to play in our area. I felt that that was a necessity and I worked with the chairman, Mr Reeve, to do that. When one looks at the Mary Ney report, there is much more clarity about where those responsibilities lie for the chairman and the chief exec. There is also a role for the company's secretary, where a company is involved. That is something to consider. This could be quite complex governance—you have an accountable body, a company and a Department overseeing an organisation that receives public money. Clarity and consistency in the framework are vital when you have that array of complexity.

Q20 **Gareth Snell:** You have described quite a complex situation between 15 local authorities. You are a company limited by guarantee—one of the less familiar models used for LEPs. Where did that complexity actually become confusion?

Gillian Beasley: I do not think it was confusion. I think it was applying a framework, which was expressed in a certain way, and a belief that there was compliance with it. If one is looking at making this a sound and clear assurance framework, one needs to understand where accountability rests in that place. In my organisation the accountability—as the chief exec of two, because I am the chief exec of Peterborough's account—rests with me, with my 151 officer and the monitoring officer, and with those councillors that have executive decision making and the body that has that decision. You have to have clarity with that, because what happened here is that things fell between, not really in the same way that that accountability ultimately rested. That is why I think Mary Ney's report is really helpful in clarifying that. The only thing I would add to that, to help, is that—I understand what you are saying about the 151 officer—I think monitoring officers can help, if they are to be part of the accountable body's response. I think that where it is a private company, consideration of the company's secretary's role, together with that of the chief exec and chairman of the LEP going forward, should also be considered. Those are just some comments to reflect on the current position for you.

Q21 **Chair:** We have nearly got to the end of this session, but I want to ask Mr Reeve one quite important question, which we have not really got to the bottom of before. In an email on 21 April, Kris Krasnowski, the director of land and estates and local government, which was a partnership of BEIS and DCLG, wrote to you, asking you to explain your conflict of interest in the MMUK site at Alconbury. Your construction company was effectively building a £20 million contract, when your LEP was advising on what infrastructure should be put into that site to increase its value. When did your construction company sign that £20 million contract, and when did you become aware of the potential conflict of interest?[1]

Mark Reeve: Chair, I refer you again to my earlier point. This was played out some time ago and advice has been taken both by CLG and the enterprise partnership and both found the same: there was no conflict of interest.

Q22 **Chair:** Can you explain how there could not possibly be a conflict interest? Your construction company was building a site on which your LEP was advising and putting in funds to the infrastructure, which was increasing the value of that site, so how can there not have been a conflict of interest?

Mark Reeve: I refer to you to the legal advice that CLG and the enterprise partnership got, which explains that position.

Q23 **Chair:** Could you briefly summarise that for us?

[1] Clarification from witness: Mr Reeve wrote to the Committee after the session stating that the LEP was not advising on what infrastructure should be put into the site in question

Mark Reeve: I do not have it before me and that is a matter of evidence. There you have it.

Q24 **Gareth Snell:** Mr Reeve, it may technically be within the rules that there was not a conflict of interest, but from a perception point of view, would you accept that that could be seen as being an improper use of the responsibilities of the LEP?

Mark Reeve: I imagine that there are many matters that enterprise partnerships have been involved in that could be perceived—

Q25 **Gareth Snell:** I am asking specifically about this instance.

Mark Reeve: What is your perception, Sir?

Q26 **Gareth Snell:** No. I ask the questions, that is how it works in these sessions.

Mark Reeve: Indeed. Perception is a matter for oneself.

Q27 **Chair:** So if you do not think you have done anything wrong, Mr Reeve, why have you resigned?

Mark Reeve: Why have I resigned? I have resigned because I was asked to resign in order that the enterprise partnership could continue.

Q28 **Chair:** Most people do not resign unless they feel that they have done something wrong. Your chief executive resigned, you have resigned, the LEP is now being controlled by the combined authority, so clearly some serious matters went on. Why did you think it was necessary to resign?

Mark Reeve: It was made clear to me that I needed to resign to allow the enterprise partnership to transition to the combined authority.

Q29 **Chair:** Did you think that was justified?

Mark Reeve: I do not think it was justified, but it was a matter that needed to be dealt with in order that 27 people could maintain their jobs.

Chair: We have very little time left, so I just want some quick fire questions.

Heidi Allen: It is not a question, but a statement. It is a little bit awkward, as Gillian and Mark will know, that the LEP covers my area. Just in terms of what Mark has just said, I can confirm that that was exactly what I was hearing locally: that the only way staff would get paid was if Mark stood down. Just for the record, if that is useful at all.

Q30 **Caroline Flint:** Just a quick question. Mr Reeve, are you saying that when you took on the position of chair you had no discussion with the accountable body about the processes around publicly declaring any conflicts of interest?

Mark Reeve: No.

Q31 **Caroline Flint:** So you never had a conversation about that at all with the accountable body when you took on the chair?

Mark Reeve: Not at the inception of the LEP.

Q32 **Caroline Flint:** So you never had any documents put in front of you that outlined what might be required by the LEP of yourself and others when they were deciding how public money might be spent, as the point at which they should declare any interests, however loosely connected to a project?

Mark Reeve: Our role as an enterprise partnership—

Q33 **Caroline Flint:** No, I am just asking whether you were ever given any documentation that outlined the responsibility of members of the LEP to declare any conflicts of interest on any issue under discussion in which public money was being used.

Mark Reeve: Prior to the new framework being brought in, not to my recollection, no.

Q34 **Caroline Flint:** That is very clear: there was no conversation when you became chair. Did you raise it at all? As someone with business interests, did you raise what is appropriate for you to declare or not declare, given that this was public money being used in the private sector?

Mark Reeve: Again, I refer you to my earlier answer, which was around the fact that this was public money being dealt with through a leaders' committee and being dealt with through a publicly accountable body, and therefore what the enterprise partnership was asked to do was to make and advise—strategic facilitation was the role.

Q35 **Caroline Flint:** But you understand, Mr Reeve, that when huge sums of public money are being used to finance private enterprises of one form or another, it is not rocket science to work out that where you have a group of businesspeople, and councillors for that matter, it is proper and right to declare any interests that could be brought into conflict when it comes to reviewing decisions made. You understand the logic of that?

Mark Reeve: Just to be clear, there was a conflict of interest policy in existence from the inception of the LEP. There was a conflict of interest policy. It was renewed annually.

Q36 **Caroline Flint:** Did you not read that when you became chair? Did you not discuss that at the first meeting of the LEP with all the other businesspeople?

Mark Reeve: No, not at the first meeting.

Q37 **Caroline Flint:** Ms Beasley, can you concur therefore that the accountable body never prompted the LEP to have a discussion at its first meeting to clarify what should be the arrangements around conflict of interest?

Gillian Beasley: No. As far as I can remember, in the member's framework, which is in the document that was approved at the end of February, the actual provisions around conflicts of interest were expressed under the Nolan principles. In other words, those six principles were, in effect, the conflicts of interest policy at that point.

Q38 **Caroline Flint:** Are you saying that all members of that committee should have been aware of how that related to them?

Gillian Beasley: It was very clearly in the—

Q39 **Caroline Flint:** So it was in the document, but there was no discussion at all?

Gillian Beasley: Not as far as—I haven't had that conversation with my section 151 officer, so not as far as I am aware today, but I cannot confirm.

Q40 **Caroline Flint:** Do you think therefore that it would not be a bad idea, when such boards are created, that there is a verbal discussion about what their responsibilities are, rather than assuming that they have all read the documentation?

Gillian Beasley: A very straightforward answer: yes. In fact, in the documentation that I produced to your Committee, I was making that point. I think that there should be proper training, yearly, on those matters. Not only that, but I also think that the proper minuting of those interests is important. When you are declaring an interest it has to be absolutely clear on the face of that minute what the item is and that matter. That needs to be part of the training too.

Q41 **Caroline Flint:** It should not be a matter of hindsight, should it Ms Beasley? It should have been a matter at the forefront of people's minds when this body was formed.

Gillian Beasley: I have said yes to your question. I have made that clear.

Q42 **Chair:** Mr Reeve, one of the Nolan principles is openness, so why have you consistently refused to answer the question of when your company signed that £20-million contract on that site? That was the point, surely, when you realised that there must have been a conflict of interest. So I put the question to you again: when did your company sign that contract?

Mark Reeve: Again, I would respond in the same manner as I responded prior to this: that matter has been dealt with prior to this—

Q43 **Chair:** I don't care where it has been dealt with. Will you please answer the question to the Committee this afternoon? When did your company sign that contract?

Mark Reeve: That matter has been dealt with outside of this Committee.

Q44 **Chair:** I don't think that is a satisfactory answer. Please—I ask the question again: when? It is a very straightforward question. At that point it must have become clear, in the interests of openness and the Nolan principles, that there must have been a conflict of interest. You have resigned. The LEP is now in deep trouble. Surely the people of

Cambridgeshire are entitled to know the answer to that question.

Mark Reeve: It is a private matter, it is not relevant and there was no conflict of interest.

Q45 **Chair:** It is not a private matter at all. You were chairman of a body that was administering considerable sums of public money to the good people of Cambridgeshire and beyond. They are entitled to know whether that public money was being distributed in a system of fairness, openness and transparency. I ask you the question again: when did your company sign that contract?

Mark Reeve: I am not at liberty to answer that question. The reality is that that matter has been dealt with by the legal advice through DCLG and through the enterprise partnership.

Chair: Well, I would say it hasn't been dealt with, and therefore I think you are covering it up.

Q46 **Gareth Snell:** Ms Beasley, as the accountable body for the LEP, are you aware of the date at which the contract was signed?

Gillian Beasley: I had a conversation with Mr Reeve about the interest, and we had a conversation about my view of it.

Q47 **Gareth Snell:** Let me put my point to you again. I appreciate that you have a view, and you have had conversations. Do you know the date at which the contract was signed that delivered public money to Mr Reeve's company to deliver on infrastructure on a site that he was running? Are you aware of the date?

Gillian Beasley: No, I am not aware of the date. Not the specific date.

Q48 **Gareth Snell:** Not the specific date?

Gillian Beasley: No.

Q49 **Gareth Snell:** So what are you aware of?

Gillian Beasley: What I am aware of, having had a conversation with Mr Reeve about the interest, is that at the time the matter was discussed in the LEP board, there was no financial benefit to Mr Reeve at that particular time, so I concurred with the result of the NAO review. What they said was that, although there was not a financial interest, under the Nolan principles, if I was a councillor, you would say that there had been a contract entered into where there is no financial benefit, but it is something to disclose—that I had an interest in that matter, but nothing that was actually financially beneficial to the individual. It would have been a disclosable but not a pecuniary interest.

Q50 **Chair:** But it must have been a pecuniary interest. If Mr Reeve's company was benefiting from the infrastructure that the LEP was putting money into, there must have been a disclosable financial interest. Why wasn't that pursued?

Gillian Beasley: I don't think there was a disclosable pecuniary interest at that stage, for the reason that the pecuniary interest had already been converted by the contract being entered into. The actual thing discussed at the board, as far as I remember it—it was not well minuted, I have to say—is that it was about a company moving to an area, but where that contract had already been awarded. It was just the location of that—so my view would have been, if I was advising a local authority member, that they would have noted that they had an interest in that item, but it wouldn't have been a pecuniary interest at that point.

Q51 **Chair:** Mr Snell, I have two or three more questions—

Gillian Beasley: Sorry—I will just say that I did not go into the detail of that, but that was the view taken by the solicitors and the advisers that Mr Reeve took advice from, and also the National Audit Office and, I understand, DCLG at the time as well.

Q52 **Chair:** But Mr Reeve was paying those solicitors, so of course they were likely to come up with a verdict that suited his case.

Gillian Beasley: It was the LEP's solicitors at the time; it wasn't his—

Q53 **Chair:** Yes, and I understand—is it not true, Mr Reeve?—that you put it out to three firms, two of which had a conflict of interest, so you only had one firm actually bidding for that contract. Is that correct?

Mark Reeve: The intricacies I stood away from, so you have some very detailed information there which I cannot counter.

Q54 **Chair:** As chairman, you cannot tell me how the solicitor who was going to give you advice on this important matter was selected? Are you telling me that?

Mark Reeve: The executive were instructed by the board to seek this advice, which they did. I had no part in the selection of where the advice came from up.

Gareth Snell: Just to follow up your point, Ms Beasley, you said that, at the time, you did not feel that there was a pecuniary interest, but there was a declarable interest. At any point, did you believe there was a pecuniary interest? What we have is governance that was opaque and minutes that were not taken readily and that were not particularly accessible or published in time. By your own declaration, there was no discussion or training given to the private sector board members regarding what is and is not a declarable or pecuniary interest, and the LEP executive and the LEP itself took decisions on a funding arrangement that was demonstrably of benefit to the chair at the time. Earlier, you said this was an area of expertise of yours, in your role as the monitoring officer. Do you not see that that comes across as the worst kind of cover-up and opaque governance, which by your own admission you would not have accepted in the local authority that you run?

Gillian Beasley: The answer to your question specifically on Mr Reeve is no, not in relation to him, because of the timing. All there is is the minute of the decision. It does not refer to MMUK and, as far as I can understand it—I do not have the minutes here—it was about a conversation about the location of a particular business in the enterprise zone area. So I would say that I do not think there was at any time. That was the only time it was ever discussed at the LEP board, as far as I am aware.

Q55 **Chair:** We are beginning to run out of time, but I have one important question for both of you. Where do we go from here? I am really interested in how the business community can make an input into the way that large Government funds can be distributed to the good people of Cambridgeshire and the surrounding areas. The chairman and chief executive has resigned and the LEP now resides with the combined authority. Where do we go from here, in your view?

Gillian Beasley: As far as I am aware, there are discussions now taking place about the reconstruction of a new LEP board, which will be a private company, where the public sector and private sector memberships will be completely different. That LEP board will sit under the combined authority and will make recommendations to the combined authority under its remit, relating to those matters that it would otherwise have its own decision-making on if it were not with the combined authority.

I understand that how that works in practice is still being worked out—those points will obviously be the subject of your interest, but that is how I understand it to be at the moment. It has a new board, new private sector members and new public sector members, sitting under the auspices of the combined authority and making recommendations. As for how it works in practice, as I say, I don't think that has been worked out.

Q56 **Chair:** That sounds eminently sensible. What sort of timescale might that all take?

Gillian Beasley: It is happening very quickly. The discussions in the combined authority last week were to think about how it might work in practice, how to recruit to the board and how that is to work. It is under active consideration. What we need now is to know how it works in practice, and we will be talking to colleagues in Government about that.

Q57 **Chair:** Mr Reeve, in light of your experience with the LEP, do you have any advice for us on this matter?

Mark Reeve: I think that the public and private sector working together will always be challenging, for many reasons. This has terribly damaged the relationship between business and the public sector. The withholding of funds, without explanation, from July to the point when the LEP was wound up on 19 December is terribly troubling and certainly needs to be understood better. It is not just about the private sector, of course, but about the universities.

We had a board that was asked on 19 December to resign in totality, given that I had already agreed my resignation to maintain the LEP in whatever form. That board was clearly not happy with that and did not understand why it would be reasonable or how it would work from any governance perspective to have all the directors resign and the interim chief executive—the current chief executive of the combined authority—take over as the only director and wind up the company. That did not seem to us to be in any way sensible, transparent or otherwise.

My view is, quite straightforwardly, that if the Government want the private sector to interact and to bring forward that ability to deliver local economic growth by influencing and facilitating, they need to better understand the dynamic that exists between the private and public sector approaches, to look at what the NAO has said and at the Ney review. They also need to recognise that, if they go too far, the private sector will disengage.

Q58 **Chair:** Thank you both very much. It is clearly a controversial subject, and we have answers to a lot of questions, although not to all of them. Thank you very much for appearing this afternoon.

Examination of witnesses

Witnesses: Melanie Dawes, Simon Ridley and Mary Ney.

Q59 **Chair:** We have a lot of ground to cover. May I introduce our witnesses this afternoon? On my left is Mary Ney, the non-executive director at the Ministry of Housing, Communities and Local Government. In the centre is Melanie Dawes, the permanent secretary at the Ministry of Housing, Communities and Local Government. I welcome the Ministry's change of name. Finally but not least is Simon Ridley, director general of decentralisation and growth, again at the Ministry of Housing, Communities and Local Government.

Ms Dawes, can I ask you the first question? I don't know whether you were present in the room for the previous session, but clearly events at this LEP have not been very straightforward or happy. How can you assure yourself as the accounting officer for your Department that there are not similar transgressions in the other 37 LEPs?

Melanie Dawes: Thank you for inviting us to give evidence, and for your welcome of our new name as a Department. That question is exactly the one that we asked ourselves a little while ago, in the spring of last year, particularly when we found that the section 151 officer assurance was not based on the sort of oversight of the documentation that we would have expected. We were concerned to investigate further and make sure that we didn't have a systemic problem here. That was precisely why we asked Mary Ney, on my right, to do her review.

I think, in the end, Mary concluded that we need to do more—perhaps we should have done some of this sooner; I acknowledge that—to be clear about what we meant at a level of detail by compliance with our frameworks. We had reviewed the framework in order to cope with the larger volume of funding that was going to go through LEPs in 2015, and after this Committee's hearing and the NAO's Report of 2016, we strengthened it further, but I think with hindsight we should have been clearer about precisely what those framework requirements meant in practice. That is what Mary's review has recommended, and we are working with LEPs across the country right now to implement it.

Q60 **Chair:** So you have got this ministerial inquiry, you have got Mary Ney's 17 recommendations, for which you have been widely praised publicly, and for which I congratulate you. Is there an ongoing role? What is Mary's ongoing role in making further recommendations and making sure her recommendations are followed up in the governance of LEPs?

Melanie Dawes: We asked Mary to do a review and to make recommendations, which she did. As a non-executive of the Department, she remains closely involved in our work, and it may well be that at a future date, we may ask her to look again at this set of issues, but I am also clear as accounting officer that it is our role as a Department in any event to make sure not just that we have the right system in place but, because systems are operated by people—no matter how good they are, they depend on the quality of the people running them day to day—that we run checks and are sure as a Department that we have the right national checks and the right local assurance, and indeed scrutiny, that is needed to make sure these systems meet the highest possible standards.

Q61 **Chair:** Before I hand over to Mr Snell, I welcome Ms Ney. Do you feel that your work is ongoing? How do you feel the Department is implementing your widely acclaimed 17 recommendations? Do you think there is a way to go? How long is it likely to take?

Mary Ney: Thank you very much for the opportunity to speak to you. Yes, I am aware of the work that the Department is doing to implement the recommendations. They cover all the aspects of the recommendations that I have made. I have been asked to help, for instance, on looking at the deep dives and what they might cover, so I feel reassured that this is ongoing work.

The original national assurance framework had all the right headings in it, and I think what we have done is build up more granularity around that, so there can be no doubt about what is expected. What I am seeing the Department do should give assurance that issues will be identified. I think it is quite important not to see this as a finished point. Issues of governance always need to be reviewed. The Department has a track record of reviewing and updating the national assurance framework. I think that is a strength that needs to be continued.

Q62 **Chair:** Have you yourself been able to do any work looking at the governance arrangements for all those 38 LEPs and are you relatively satisfied that there aren't other Cambridgeshires out there doing similar things?

Mary Ney: During my review, I obviously spoke to a number of chairs of LEPs, chief executives of LEPs, the NAO, the Chartered Institute of Public Finance and Accountancy and so on to get a perspective and a feel for what was currently taking place. I spoke to some local authority leaders and directly elected Mayors who were on those boards, so I got a feel for that, and I looked at a number of websites, but I didn't look in detail at every LEP in that timeframe; that wasn't possible. However, I was able to get a good enough feel for what the issues seem to be.

Q63 **Chair:** May I ask you about a specific aspect of one of your recommendations, and that is around section 151? I do not know whether you were in the room for the previous panel, but clearly the Cambridgeshire section 151 officer—initially, at any rate—felt that his role was solely related to financial probity, whereas you have recommended that it should be broadened to cover broader governance issues. Do you feel that the guidance that is now given to section 151 officers is sufficiently detailed to cover those aspects?

Mary Ney: I think there are a couple of points on that. First of all, in relation to the role of the 151 officer, I did recommend that further work is done to give much more detail about that, and that is done in conjunction with CIPFA. I know that is an ongoing piece of work that the Department is doing and that should give much greater detail around the expectations of the 151 officer and also the expectations of the LEP about how they accommodate that. I think some of that was not understood—how you give line of sight to a 151 officer.

With the other part of my recommendations, though, the starting point was that at the end of the day, the culture around good governance and transparency is led by the chair and chief executive of that organisation. The 151 officer from the accountable body clearly has a role, but I have put a much greater emphasis on the people who run those organisations, because they are not just about written documents and policies, and looking at websites to see if they are there. They are about ensuring good governance and transparency is a live, everyday issue. It isn't just about what happens in meetings; it is about whatever you do in your role within the LEP. A much broader responsibility is being placed on the chair and the chief executive, backed up, obviously, by the 151 officer.

I heard the comments earlier and I would expect the 151 officer to bring the monitoring officer into play if they felt there was an issue. I think it is quite well-established in local government that the head of paid service, the section 151 officer and the monitoring officer are a triumvirate who safeguard the decision making, together with the elected members.

Q64 **Chair:** I will bring in Mr Snell on that in a second, because he has a lot of experience of this issue. You can have all the guidance, websites, protocols and everything else you like, but if the implementation isn't supervised properly it may not happen in the correct way. What could be done about the actual implementation of all these codes and everything else?

Mary Ney: What I try to say in the report is that being clear about accountability being set on individuals for good governance of the organisation is the starting point. It is about making people publicly accountable, so having very clear processes for declaring conflicts of interest and having a pro forma, which makes you think about things under all of the headings. You signing it and it going on the website with your signature on is about people taking personal accountability. It should be established within the organisation that it is part of normal, everyday, embedded business that you think about governance, and that the 151 officer or the chief executive of the LEP will be proactive on that, raising it proactively with members.

People sometimes forget about how conflicts can be seen. I heard the comments earlier, but it is about perception. Lawyers may give views, in my experience, about conflicts of interest and they are perfectly proper assessments against the letter of the requirements. However, the bottom line is that it is about public perception, and it is for the chair and the chief executive to hold that trust, in terms of public perception.

Q65 **Gareth Snell:** Ms Ney, your report is quite wide-ranging and gives some very good suggestions; I was glad to see that the Department has taken them all on board. We talk about chairs of LEPs being accountable. Can I ask both you and Ms Dawes, to whom specifically should they be accountable?

Mary Ney: In the way that LEPs are set up, because they have different legal frameworks, there are clearly different sorts of accountabilities, so they are not all quite the same. That gives the chair of the LEP different responsibilities if they are a registered company, for instance, as opposed to just a partnership. At the end of the day, they are accountable to the accountable body in terms of how they are handling their finances, and to the Department. Along with that, though, sits accountability to the public for public money, which is why the Nolan principles are an important part of it, to emphasise to those who perhaps do not come from the public sector what the underlying ethos is and what the responsibilities are.

Q66 **Gareth Snell:** I entirely agree, but when you say accountable to the public, that is quite an amorphous statement that does not really give any particular mechanism for how it is achieved. Obviously, with the accountable bodies often being local authorities, are we not in danger of the somewhat less robust scrutiny processes of a tier 1 authority suddenly being asked to take responsibility and the burden of scrutinising the activities of local enterprise partnerships so that the public perception of scrutiny and accountability is held? In terms of the accountability that the LEPs have to the Department, Ms Dawes, what do you do on a regular basis to hold those LEPs to account, other than just reading the reports that are sent to you?

Melanie Dawes: Perhaps I could answer your earlier question, and then that later question. On the question of who the chairs are accountable to, at the moment they are largely accountable to their other board members. That is who chooses them, and includes, of course, elected members from the local authority.

We have been less prescriptive about some of these questions of accountability and scrutiny, because we have not so far prescribed a single model by which LEPs should be set up. There are basically two models out there at the moment. One is a limited company structure, and the other is a partnership structure. That is one of the questions that we have under review now as part of the policy work that we are doing. One of the advantages of prescribing a single structure will be that we can then be more prescriptive and more clear about some of these questions about accountability, and indeed local scrutiny.

Q67 **Gareth Snell:** But LEPs have existed since 2010. Why has it taken you seven years to reach a point where you think that actually there needs to be some sort of more formalised structure for accountability of the activities of organisations that, on the face of it, are spending quite a lot of Government and public money?

Melanie Dawes: When LEPs first started in 2010, they were strategic bodies responsible for building partnerships and pulling strategies together, which I think they have done very effectively. I do not think that we should lose sight of the achievements of LEPs over this period. Once we started to put more funding through them, particularly with the local growth fund, in 2015 we put in place a clearer framework for assurance, which we have since tested quite actively.

As you said at the beginning, Chair, we have adapted along the way. I said earlier that I think there may be some things that we could have done a little bit sooner. We have always chosen—and to some extent this was a policy decision—not to prescribe that overall structure, but I think that is now something that we are thinking about with our Ministers, because it would bring some advantages in the way that I just described. That decision has not been made yet, but we have it under review at the moment.

Q68 **Chair:** Our previous Committee in 2016 made four fairly broad recommendations, which were, to summarise them: to enforce the existing standards of transparency, governance and scrutiny before allocating future funding; to revise the local enterprise partnership national assurance framework; to ask the section 151 officer to confirm the local assurance framework; and to ask the LEPs to update their engagement plans and websites.

You now have Ms Ney's 17 recommendations. Can we be assured that these questions of governance will be tightened up, and we will not get another Cambridgeshire-type LEP? Those were fairly gross violations of transparency and governance. Can we be assured that they would be picked up much quicker in future, and advice would be given in a more timely fashion?

Melanie Dawes: I think that the work that Mary has done for us was precisely designed, as I said earlier, to ask that question. We had actually initiated the process of setting up Mary's review before Stephen Barclay's letter was sent at the beginning of March 2017. It was already on our mind, partly in response to quite a lot of media scrutiny—allegations that, in the end, did not substantiate any concerns about the misuse of public money but did raise some transparency concerns that we have since tightened up in Mary's review. We are relying on the fact that that review was comprehensive but, as I said earlier, we need to check its implementation. We are not relying on just having published things or, indeed, on just seeing things being published on websites.

This answers your earlier question, Mr Snell: we have for three years now done tests and have had a conversation with every single LEP, and this year we are doing that right now—they are just coming to a close. We are going to follow them with 12 deep dives—that is broadly the number of LEPs into which we want to delve in more detail—which will be a very systematic assessment of compliance with the framework. I would be very happy to write to the Committee after that process is concluded and give you our latest sense of assurance. This is an annual exercise—it has been for three years—and we are not going to stop it. We will keep tightening it and implementing it.

Q69 **Chair:** That is a very helpful offer. Can we get from you a sort of timetable of when Ms Ney's recommendations and your ministerial review are likely to be implemented and when you might be able to write to the Committee?

Melanie Dawes: Yes. Perhaps I will ask Mr Ridley to comment on those timescales, but I would expect to be able to write to you after Easter—sometime over that summer period, between Easter and summer recess would definitely be possible.

Simon Ridley: To put some timings on the process that we have under way, we are doing 38 individual annual discussions with the LEPs. Those are just coming to an end now. We then have a process in the Department where we look across the 38, moderate and understand where there are issues, and have the ongoing dialogue with those individual LEPs. That takes us, essentially, through to the first week of February. We will then begin the 12 deep dives that Melanie talked about, which are about getting beyond the individual aspects of the guidance, and we will be asking questions about leadership and some of the cultural issues that Mary talked about, to be in a position to put together our advice to Melanie as accounting officer before we make next year's funding allocation—so, in the middle of March.

We will be publishing new guidance, which we sent out to LEPs just before Christmas. It will implement a number of Mary's recommendations in terms of bringing much more consistency to key policies like our expectations on conflicts of interest. It is guidance and a set of model policies that we will be publishing, on which we have worked together with a number of external partners. A little later than that, we will be publishing final guidance on the role of section 151 officers. That is in draft and we are doing it with CIPFA at the moment. By the time we get to the beginning of the new financial year, we will have put measures in place.

Chair: That is very helpful.

Q70 **Caroline Flint:** When individuals go on to a LEP board, do they have to sign anything that outlines in detail exactly what responsibilities they have and anything they have to disclose, not just in the form of signing that note but any forthcoming discussions? Is there such a document that they have to sign?

Simon Ridley: Chair and board appointments are made locally. Those processes are run by each individual LEP—

Q71 **Caroline Flint:** I understand that, but I am asking whether there is a document that people have to sign before they are authorised, outlining anything—financial, property, are they landlords or whatever—that should be disclosed before their presence on the board is authorised and that indicates that there has to be, as Mary Ney said, ongoing active engagement with any issues they need to disclose before, during or after meetings that are pertinent. Is there such a document?

Melanie Dawes: This is a question about detailed guidance following Mary's review and I do not have the document in front of me. It is in draft at the moment.

Q72 **Caroline Flint:** Ms Dawes, I think it is quite a simple question. I am just asking about whether when someone goes on a board they have to sign a document like that.

Melanie Dawes: I do not have that document in front of me right now, so I cannot tell you whether it is a document or—

Chair: I do not know, Mr Ridley, whether you can answer that question.

Caroline Flint: My second question, if I may—

Q73 **Chair:** Before we move on, if we cannot get a clear answer to that today, could we have a note? Or maybe, Mr Ridley, you are in a position to give us an answer.

Simon Ridley: No. We can come back to you.

Melanie Dawes: I do not know whether it is a document or, for example, a meeting that needs to be minuted. I do not know how precisely in detail we have set that up, but I am very happy to confirm that.

Chair: That is fine. If you could drop us a note that would be very helpful.

Q74 **Gareth Snell:** Just on that point, my colleague's question was not, "What is the process coming in?" I think she was asking, quite rightly, "What is the process now?" If you are going to a board of a LEP now, do you have to produce a templated register of members' declarable financial interests, so that there is a record of those things? Parish councillors in tiny parish x, where they have a budget of £5,500, have to do it. You would expect that anybody who was to be responsible for administering huge sums of public money would also have to do that sort of thing, even if they come from the private sector. Is that a system that exists today?

Melanie Dawes: We are tightening up all that guidance—we are clarifying it.

Q75 **Gareth Snell:** I am not asking about guidance in future. In the last seven years, has that system existed?

Melanie Dawes: I thought you meant the new guidance and I was trying to explain to you what our new requirements are.

Simon Ridley: LEPs are required to have a conflict of interest policy and all board members must declare their interests. There have been issues in individual LEPs about how much those are made transparent, but that has been in place for the last number of years.

Chair: We could follow this line of questions for a while. Could the note be retrospective and prospective about the guidance that existed and what will exist?

Q76 **Caroline Flint:** My second question arises from something that you said, Ms Dawes. You made the point about the good work that LEPs do in creating jobs and investment. Do you have any evidence to suggest that what the LEPs have done is any better than what the Regional Development Agencies were doing? If the Regional Developments Agencies had still existed, they may have produced exactly the same results as the LEPs.

Melanie Dawes: In a sense that is a policy question. We have not done an evaluation of LEPs versus the RDAs. As you say, there are some similarities, in that the LEPs are designed to look beyond local authority boundaries at a slightly larger economic area, but they are more local than the RDAs. People describe that as supporting greater local business engagement.

Q77 **Caroline Flint:** Do you have any evidence that the LEPs are better known by the public in their local areas than the RDAs?

Melanie Dawes: We haven't specifically done any evaluation of that.

Q78 **Gareth Snell:** On that point, do you have any evidence to suggest that businesses respond better to LEPs than RDAs in their local areas?

Melanie Dawes: As I said, we have not done an evaluation of those specific questions. When I said I thought that the LEPs contributed a lot to this agenda, I was talking about the partnerships that they are building at a local level, which we hear very positive things about. I was talking about their ability to join forces with local politicians, their success in being part of the engagement with devolution deals and so on. Increasingly as time goes on, we see evidence of the delivery happening as well. We have not done a like-for-like comparison. In a sense, we are getting into policy questions.

Q79 **Caroline Flint:** Mary, you mentioned about how you tried to do a sounding among different groups and councillors about the concerns that had been raised. Did you get any sense from the councillors you spoke to of a reluctance to challenge business people on the boards or of a sense that it was not really their responsibility as they did not run the organisation?

Mary Ney: I got a sense from everybody that I spoke to that they were quite concerned about the good stewardship of public resources, and that clearly that had come up the agenda for everybody. There was a lot of commitment to that and I found that, generally, people wanted to know what good practice is, to understand that better and to implement it. That seemed to be quite a good baseline to build on.

Q80 **Gareth Snell:** Very quickly, Ms Dawes, on your role as an accountable organisation: had Mr Barclay not been persistent in his concerns about what he was seeing in the Greater Cambridge Greater Peterborough LEP, how many of your routine internal checks would have flagged up the issues that subsequently came through in the investigation and led to the work by Ms Ney in the deep dives?

Melanie Dawes: We were already looking at that LEP, which our local teams had flagged to us—Simon and I were overseeing the system at a senior level in the Department. In particular, we had flagged the lack of a conflict of interest policy, which was agreed by the LEP only at the very end of February. It was already on our radar. It is fair to say, though, that Stephen Barclay's concerns expressed in writing at the beginning of March sharpened everyone's mind—certainly the LEP's and the local authority's minds, in the way that you heard earlier from Gillian Beasley. It is hard to say exactly how things would have been different, but we were already working on asking Mary to do a review for us at that stage, and I think we would already have been going to get into some of these issues around implementation and detailed descriptions of the guidance that was needed.

Q81 **Gareth Snell:** Can I move on slightly to the geographical footprints of LEPs and, in particular, where those lead to governance issues? We heard from Mr Reeve that one of the issues that he was grappling with was having 15 local authorities with 15 leaders and a whole host of other areas, some of which were in other LEPs, some of which were part of other combined authority areas and some of which were involved in other economically driven prosperity projects. In terms of ensuring future good governance, how do you see those footprints changing? Where places are in more than one LEP, how do you see that changing to ensure that there is absolute transparency with respect to the activity that is taking place?

Melanie Dawes: This is one of the questions that we are looking at in the policy review right now—the question of footprints and whether we should have overlaps, as you describe. Some of what you describe, though, is the complexity of working with a two-tier local government structure. We are always going to have that structure to work with in many of these areas, and it highlights the benefit of having fewer LEPs and being able to engage with fewer local authorities. As I said, we are looking at those questions now; they are perfectly fair questions to ask.

Q82 **Gareth Snell:** Going back to the role that local authority leaders play in their LEPs, let me put a point to you that I put to Mr Reeve. It appears to me that there is a narrative, not just in what was happening in Cambridgeshire and Peterborough but in other LEPs. There is almost an abdication of responsibility for ensuring good governance processes to local authority leaders and local authorities, because they are the people who do that on a day-to-day basis—that is their bread and butter—yet these are meant to be business and industry-led organisations. To pick up the point that Ms Ney made about the chair and the chief executive having a greater role, do you feel that having a chair who is essentially, as Mr Reeve put it, there for two hours a month to chair a meeting is an appropriate way to ensure good governance?

Melanie Dawes: Simon may want to say more about this, but although a LEP may have a number of local authorities on its board, it has only one accountable body. That has always been the case, and it means that there should not be confusion about which local authority is the accountable body.

On the role of the chair, I agree with you and with what Mary said earlier. I have sat as a non-executive on a number of organisations over the years, as well as sitting at board level in Government Departments, and I am very clear that it is the role of the chair to lead the culture and conversation around things like conflicts. You cannot expect non-executives to come to a meeting and just rely on a process that is run by the executive behind the scenes; if it is going to live and breathe in the room, it needs to be part of the board conversation as well. One of the recommendations of Mary's review is that the chair and the chief executive of the LEP should sign off each year that they really have overseen the implementation of these frameworks in a way that means something. We will be overseeing that and getting under the skin of those statements as a priority in our annual checks from now on.

Q83 **Gareth Snell:** But given that you said earlier that no two LEPs have the same model in terms of their set-up and their operation in their areas, how will the Department be able to construct guidelines that can lead to good governance and will actually fit all of the 38 different models that exist across the country?

Melanie Dawes: Much of what we need by way of good governance we can set out and clarify—and we have—in more detail regardless of the underlying structure of the LEP, but there are some issues where greater consistency about LEP structures across the LEP network would help us to be clearer. One of those is scrutiny at local level by the local authority. That is one of the advantages of moving to a more consistent structure.

Q84 **Gareth Snell:** But again, isn't expecting scrutiny to be done by local authorities just abdicating responsibility for public accountability of what is essentially a private industry-led body to a local authority?

Melanie Dawes: It won't be just done by local authorities. There has been quite a lot of concern, including in the Select Committee, that there is a lack of local democratic scrutiny. While we are scrutinising at a national level, that needs to be complemented by local democratic accountability as well. So that is what I was talking about—about the need to reinforce that, and how having more common and consistent structures across LEPs would make it easier for us to prescribe how that should work.

Q85 **Chair:** But, Ms Dawes, there is a legal duty on directors of a PLC to avoid conflicts of interest—to disclose any possible conflicts of interest—so surely if we are demanding those higher standards of our PLC chairs and directors, we ought to be demanding the same sort of standards for chairs and boards of LEPs, which in many cases, in some of the larger ones, are distributing hundreds of millions of pounds-worth of Government money.

Melanie Dawes: I agree with that, and we have required those high standards. By putting the Nolan principles alongside them, I hope we have left it beyond doubt that any concern should be raised, even if it seems very minor. But your point that this is familiar territory for the private sector already does make it slightly disappointing that we have had to be so very prescriptive, as we are now being in response to Mary's review, about exactly how those procedures should work. But we accept that we need to do that, and we are doing it.

Q86 **Chair:** Given that there are 38 LEPs, and human nature being what it is, there is always a likelihood that somewhere in those 38 LEPs there will be problems in this area. I am wondering if you have the right mechanism in place at the moment. What you have at the moment is an observer on each board, and each year one of your officers in your Department has a conversation on these matters with each LEP. Ultimately the only sanction you have got is to stop their money. It seems to me that long before you get to that point—this is where it has got to in Cambridgeshire, and it has caused huge disruption, basically—there ought to be a mechanism to be able to put some stronger pressure on chairmen and directors to get these corporate governance matters right.

Melanie Dawes: Simon might want to say a little more about the different layers that we do have. I think it is a little bit more than that. Just to clarify, it is not one person from the Department for each LEP; we have a team who works with the LEP. So it is not dependent on a single person in each place; it is something that is more robust than that.

Simon Ridley: It is really important to start by saying that our relationship with every LEP is all year round, so we get data from them every quarter about their spending and delivery against a set of outputs. We have the annual conversation, which is the moment in the year when we look across all they are doing on strategy, delivery and governance, and we are tightening that process up under a much more consistent set of guidance in the way we have already talked about earlier in this hearing. The new thing that we are introducing on top of that is the deep dives that we have talked about.

We have an ongoing relationship with every LEP, which people in the team around the country run. That information comes back to the centre of the Department, so we know much more—there is much more scope to escalate these sorts of conversations if we need to.

Chair: Nevertheless, the only ultimate mechanism or sanction you have if things start to go wrong is to stop LEPs' money—after all, according to figure 1, in Cambridgeshire you identified problems in early February and revisited that in March, but it was not really until about August or September that you began to get to the bottom of it, in the case of Cambridgeshire. Mary Ney, perhaps you have a view on whether there needs to be some sanction so that, when things start to go wrong, you have had your observer at the meetings and you have had your people on a once-a-quarter basis—your teams that Mr Ridley talked about. If things are still going on, as in the case of Cambridgeshire, ought there not to be some stronger sanction?

Mary Ney: I think it is quite difficult to formulate what that might be, because whatever sort of construct of organisation that you have got, the leverage in the final analysis is through the resources that they have. There is much more scope through dialogue with them to actually stop things before they get to that point. You have got to put the emphasis on that and on building that relationship so that pressure can be put and discussions can be had. In any arm's length body that you are resourcing, you do not always have a final, sudden-death solution, if I can call it that. You have to work with that body. It may need some sort of intervention to help them get back on track, as we have seen work in other parts of the public sector. I am involved in Rotherham at the moment, so I know that that sort of intervention can work when a public body has got into difficulties. There are ways you work with them to rebuild it, because the body needs to continue.

Chair: Indeed.

Q87 **Caroline Flint:** Ms Dawes, a year before Mr Barclay highlighted concerns to you, I asked you a question in this very Committee—on 25 April 2016. I asked you about this conflict of interest concern and in your answer you said: "They are all required to have a conflict of interest statement. They are all required to go through that process. If you like, we can write to you to confirm whether or not we have any concerns on specific cases. I don't believe that we do". Mr Barclay then got in touch with you about a year later, and around March 2017 there was a follow-up to find out not only about the problems in terms of Cambridgeshire but some of the others LEPs who were not following whatever was on the list in good faith, with the expectations around conflict of interest. Again, it is worrying how, just on a basic level, this was not getting through.

I also have to say I am concerned by your earlier answer about local authorities taking on a further role to scrutinise LEPs in how they are carrying out their duties, given that in some respects some local authorities are developing further their own scrutiny function. Most local authorities are probably more engaged with what resources are coming into the area, so they might have a conflict of interest because they will be interested in what public money might be coming down the path to them. Councils have committees of elections, democracy and governance—I declare my husband is a councillor and he is the chair of the one in Doncaster. Perhaps you can elaborate further on which part of a local authority will play this role.

Melanie Dawes: To answer your questions in turn, first, as you said, here in April 2016 we did confirm that LEPs were required, in accordance with our framework, to have a conflict of interest policy. At that time, we had just gone through an audit of a system that was just one year old at that stage. The National Audit Office had done a review alongside that, and a number of recommendations came out of that, which we have followed up. But as we did the further checks on that system through the following year, we did find that a number of LEPs had still not quite put those conflict of interest policies in place, and we were clear that that needed to happen. We were clear with Greater Cambridge and Greater Peterborough, which was one of those that had not yet got one in place, and we did that work.

When I wrote to the Chairman of the Committee after that hearing in 2016, on 3 May, I said that I didn't have any concerns to report about any individual LEP at that stage. That was to the best of our knowledge at that time, but our subsequent checks the following year drilled deeper, which I think was appropriate, and asked more of certain LEPs in a number of areas.

It is important to highlight that, throughout all this scrutiny, our own checks, Mr Barclay's concerns and, as I was saying earlier, a significant media challenge in a number of areas—I welcome that challenge, actually, because transparency is extremely important and scrutiny is helpful wherever it comes from—we have not found any evidence of a misuse of public funds or of any impropriety in using taxpayer money. I do not want us to lose sight of that, because it is quite important. What we—

Q88 **Caroline Flint:** How awful it would have been if there had been, without the checks in place. Thank goodness—you missed a bullet there.

Melanie Dawes: We have not found such a bullet. We keep looking and checking for that, and we are very committed to making sure that the framework is good enough and that it is being operated well locally.

Q89 **Gareth Snell:** On that point, you say that you have not found any evidence of misuse of public money, and I take that at face value. I have no reason not to believe that. However, particularly in the case of Greater Cambridgeshire and Greater Peterborough, where they did not have the correct training or disclosure of conflict of interest, did you find any evidence to suggest that the decisions made, which led to public money being spent—albeit the public money can be accounted for—were made with the wrong motivation or intentions? It is all well and good saying, "We can account for the money," but if that money was spent for reasons that may not be entirely transparent, you cannot be sure that the decision-making process was above board, even if the spending of the money was.

Melanie Dawes: Simon may want to say more specifically about Greater Cambridgeshire and Greater Peterborough, but we investigated Mr Barclay's concerns, which, alongside those of the local authority members, raised issues precisely of the material conflict. They would have been a very serious concern, had they been upheld. We looked into that. Prior to that, in the autumn of 2016, there were significant allegations made by a national newspaper about a number of LEPs. We investigated every single one of them and worked closely with the NAO on that, but again, we did not find any concerns about misuse of public money, although we did find concerns about transparency and governance, which we then followed up.

Q90 **Gareth Snell:** That does not really answer my question, but okay.

Melanie Dawes: I was suggesting that Simon should answer your question about the GCGP LEP in particular.

Simon Ridley: To make sure I do not set off on the wrong foot, which aspect of the question do you want me to answer?

Q91 **Gareth Snell:** I totally accept that the money spent can be accounted for. There is no question of misuse of public money in terms of where it was spent. What I want to know is whether you can be confident that the decisions taken that led to the money being spent were taken with the right motivations, and that those decisions, albeit quite opaque in the way they were made, are therefore above board and in line with the Nolan principles and the other things that have been quoted today.

Simon Ridley: To the best of my and our knowledge, yes. It is important to say that there are a number of steps to go through before decisions are made. LEPs, including in Cambridgeshire and Peterborough, must have a clear strategic economic plan and a clear vision for that. There are a number of clear priorities that they have, which we understand and have discussed in the Department, whether that is bringing forward an enterprise zone or particular infrastructure investment. Indeed, as we do the Growth Deal allocations across the country, it is on the basis of sight of project priorities across the country. That process happens openly between the LEP, the local authorities, the local area and us in the Department. On the specific decisions in Cambridgeshire and Peterborough and some of the particular allegations made, we have found no evidence that any decisions were made in a way that was self-serving of any one individual or organisation.

Chair: Layla Moran has been very patient. Sorry.

Q92 **Layla Moran:** Thank you, Chair. My question is in a similar vein, coming back to the 12 deep dives you are planning to do—is that correct, Ms Dawson? Is that list published?

Melanie Dawes: No.

Q93 **Layla Moran:** Will it be published? Can we know which the 12 LEPs are?

Simon Ridley: It is not a list of places that exists definitively at the moment. We have just done our conversation with each of the 38 individual LEPs. We will, as I said earlier, moderate that and ensure we understand where we think that either specific shortcomings or particular risks or issues have come out of those conversations. Then we will decide the 12 places where we are doing deep dives accordingly.

Q94 **Layla Moran:** Is there any flexibility? If you found that 13 had issues, could you do 13?

Simon Ridley: Yes. It is just a question of the number of people we put on it and the time we have. We have brought together a project team, which has been running for the last couple of months and will be running for the next six months, so if it needed to be 11, 13 or 14 we would have the resource in place to do that. We would clearly ensure we were doing what we needed to, based on a proportionate view of the assurance we want.

Q95 **Layla Moran:** What would be examples of the criteria that would be red flags? What strikes me about this case is that the initial assurance you did raised some amber flags but it was not really a big deal, and then you had the MP weigh in. From what I am hearing about what happened in Cambridgeshire, I am not totally convinced that my own LEP in Oxfordshire, for example, was doing all of those things either. Could all LEPs be falling into the same category as Cambridgeshire? Are we therefore in a position where 12 LEPs will have their funding pulled? I am really concerned that there was no deep dive into those assurances earlier. What are the red flags? What would cause the big intervention we have seen?

Simon Ridley: We have done a couple of new things ahead of this year's conversations. The first thing to say is one of Mary's recommendations was that there should be a statement into the annual compliance conversation from the section 151 officer that ascertains their view, based on having seen the information. We put that in place ahead of these conversations. We have had more—not external, but independent—information coming in.

On your initial question the sorts of flags that might make us want to do a deep dive would include if there is anything around basic compliance not in place, which is something we have done; if we have any views from the accountable body that some of the underpinning processes are not as strong as they might be; questions that we pick up from external partners, in any way—LEPs are under scrutiny, and things do come through to us; concerns about delivery against the projects that they have already committed to—and we can see, as I said earlier, degree of funding, progress on projects, some of those sorts of things; and then any other concerns we pick up through the interviews that we do with chairs, board members, chief executives, that just give us cause for concern. So we bring that together in essentially three categories of governance, delivery and strategy, and then we will have the moderation discussion around all 38 LEPs in the Department, which will give us a chance to compare and make a sensible choice.

Q96 **Layla Moran:** Is there a way for ordinary taxpayers to feed into this process? Again, one of the big themes of the LEPs across the country is this perceived democratic deficit between taxpayers' money and the taxpayers, but also smaller businesses: I was struck by Mr Reeve saying that the university in Cambridge was very influential. The same is absolutely true in Oxfordshire. Is there a way for just ordinary people to come in on this conversation as well?

Simon Ridley: A large part of what we have been doing with LEPs over the last year is to try and systematise and make much clearer the information they put out, and make much more transparent the projects they are committed to, the amount they are spending, where they are happening, to give taxpayers more of an opportunity to input. We do not have a formal bit of our process which engages with public groups or anything like that at the moment. In different local areas, there are different ways in which the LEP and the local authority engage their communities.

Q97 **Layla Moran:** If you will indulge me with one more question, it is for Ms Ney. Did you notice when you were engaging with different LEPs that LEPs were particularly good at engaging with the public? My experience in Oxfordshire—I am looking at formal minutes now—there is never a standing time that people could come to the meetings. It is quite opaque, sometimes, when they happen. In fact I had one group in my surgery asking, "We need more than five minutes." It was a very complex issue. They were given five minutes to speak to the board with no right of questions or reply or anything after that five minutes. Is that normal? Have you seen examples of best practice in this?

Mary Ney: What I saw was very variable practice about how people ran their decision making in terms of transparency and public accountability and how agendas worked, and information. That is one of the areas that the Department is picking up—being much clearer about that sort of information. I did pick up quite a lot of concern from LEP chairs about ensuring that they were giving due voice to democratically elected representatives who sat on their board. Some of them had specific arrangements and were picking up on that, and some had scrutiny arrangements in place with their local accountable bodies. I think there was one where there was a joint scrutiny body with representative councils, which is a way that councils can scrutinise as well. There were a number of different aspects, but certainly not consistent. From that I probably picked up that the LEPs had had to give quite a bit of consideration to how they engage with their business communities, with smaller traders and smaller businesses and so on. They have not quite got to public community engagement, which would be something that would be addressed by the guidance.

Q98 **Chair:** Ms Ney, can I make two suggestions to you, given your ongoing role in this whole area? One is that most LEPs produce an annual report: that should have to include a paragraph on whether proper governance arrangements have been put in place. Secondly, going back to my plc analogy, all plcs are required to have an AGM, so my guess is that when Ms Moran's constituents have complaints about their LEP, everybody will turn up and give the chairman a hard time. That is exactly, in terms of accountability and transparency, how it ought to operate. Can I suggest you consider those two suggestions?

***Mary Ney** indicated assent.*

Melanie Dawes: We can certainly factor those into the policy work that we are doing for Ministers at the moment.

Q99 **Gareth Snell:** Following on from what the Chairman said, does it not seem quite strange that it has taken seven years to get to a point where the suggestion is that you have a public AGM? I put that as a throwaway point.

The question I was going to ask was about the evolving role of local government and where LEPs overlay that. In particular, where you have combined authorities and the newly elected metro Mayors, either in Manchester or any other parts of the country, LEPs will potentially be folded into those structures. If that is the case, will those structures still be considered LEPs for the purposes of your guidance and your accountable role with them? Given that LEPs were meant to be a business-led body—my interest in this was that I was on my LEP board as a local authority leader and it was made clear to us that this is the business role and we were there to support from a democratic and accountable role. If that switches and you end up with Mayors running these particular funding streams and there is no LEP chair, how can you be certain that the strategic direction of that funding will be economic and not a political decision, which is the inherent default of politicians, to benefit whatever particular political agenda that Mayor may be supporting?

Melanie Dawes: I will let Simon come on to the question of LEPs and how they fit with combined authorities, which is obviously very relevant to Greater Cambridge and Greater Peterborough as well. Can I just pick up on your point about why it has taken so long to come up with some of these ideas? The reason is that the role of LEPs has changed. In the early years of LEPs, Ministers decided as a matter of policy not to be too prescriptive about some of this, and the role of LEPs was at that time largely strategic and advisory.

As their role has changed and they now oversee decision making on large amounts of public funding, particularly since 2015 with the launch of the local growth fund, we have put that assurance framework in place. That is the framework we have been talking about today. I do take your point. It is a fair question, but I wanted to give you a proper answer on it, because there are some reasons for our approach having changed in the last three years.

Q100 **Caroline Flint:** Just on that, you are quite right, Ms Dawes, that the amount of money they oversee and the direction of that money is new, but even at the outset they were making strategic decisions and influencing where money should go, even if they did not control it. Therefore, the same applies in terms of any conflict of interest influencing a funding agenda, does it not?

Melanie Dawes: They were making decisions and they did need to have a conflict of interest policy in place right from the early days, but it is that degree of prescription—some of the very interesting ideas about having annual meetings and so on—where I think we have shifted in the last year, about prescribing and being clear about that level of detail. Some of that is what we now need to do and we are doing it following Mary's review, but that has been a shift in recent years.

Q101 **Gareth Snell:** If a parish council is required by your Department—which it is—to have an annual parish meeting, where it publishes an agenda, hires a room and encourages the members of that parish to come and put questions to it, then that is quite prescriptive for an organisation that may have a budget of less than £35,000. That is probably quite a lot more; the parish council I used to be on had about £7,000. I appreciate that this may be a matter of policy, but from an accountability perspective and looking at taxpayers' money, a parish council has £7,000 and lots of hoops to jump through—compare that with a large LEP. From the very early days, they were spending money. I was on one and we were spending money. We were making big decisions about growth funding, about pinch point funding to the local transport board, and about ensuring there was early seed investment for start-ups. That was money that we had and disseminated. Are you honestly saying that it was policy at that time—I am not questioning the policies, but simply confirming them—to take a light-touch approach and say, "Actually, that is not for us to over-regulate," whereas on the other hand parish councils have all this work they have to do?

Melanie Dawes: I think that has been a shift in policy, commensurate—or certainly coinciding—with the expansion of the role of LEPs. I just wanted to be clear that there has been that shift.

Q102 **Gareth Snell:** How much do you attribute the failings of the governance arrangements in Cambridgeshire with some of those early decisions?

Melanie Dawes: What we have seen in Greater Cambridge is—you heard some of this earlier from your earlier panellists. Mary talked earlier about culture, and I think you have seen that there perhaps has not been the same appreciation, particularly among the board members of the LEP—those from the private and public sectors—of quite what was meant by some of the elements of our assurance framework.

What you saw play out through the summer of last year—yes, it took some time—was a conversation locally as much as anything else about where that LEP wanted to go and what it cared about. There were some quite different views on different sides of the argument, and you heard some of that this afternoon with the previous set of witnesses. Would some of those things have been prevented if we had been clearer and more prescriptive about exactly what the assurance framework meant at a level of detail a couple of years earlier? Maybe, but I still suspect that there would have needed to be a serious conversation about differences of view around the table about what mattered and what did not.

Q103 **Chair:** I want to close this session up, but the Cambridgeshire story is an unhappy one. Several times during this session you have said that it is nothing to do with the misappropriation of public funds, which in a sense is far more serious than governance offences, but I remain concerned about the mechanisms your Department has to deal with LEPs when things are going wrong. Basically, you had to use the ultimate nuclear weapon of having to withdraw their money, with all the distortions that that is causing locally and the difficulties it is causing for Cambridgeshire people. I just think that there should be some form of sanction less than having to go to the nuclear option of withdrawing their money, so that you can put these things right. You have got an observer on the board. With all these things, it is much easier to put them right quickly, rather than letting them fester over a long period of time. I ask you and Ms Ney to go away and think about that.

Melanie Dawes: I think it is a fair comment. We launched that nuclear weapon, as you described it, as soon as we had real concerns. It was not just that the LEP did not have a conflict of interest policy; it was the fact that we realised that we could not rely on the section 151 assurances. It was also about the way that the LEP responded, to be honest, in perhaps not showing the degree of concern that we would have expected. It is possible that we could make more use of publishing audits that we might have done in very difficult circumstances where we are very concerned, and we are happy to look at any ideas the Committee may have. It is an issue that has been raised by the NAO.

In the end, although it was a painful exercise for Greater Cambridge and Greater Peterborough, we were concerned all along to ensure that we were not delaying growth and job creation in that area. We did give them the money they needed for their administration costs in September, which was long before Mr Reeve resigned, to ensure that jobs were not going to be lost in the LEP itself. We were very concerned not to have too seriously bad an impact on the LEP and its wider growth while it put right the problems we had found and asked it to address.

Caroline Flint: Can I just say, Chair, that nuclear policy only works if it acts as a deterrent? The fact we have got to this point shows it to be a failure of the system.

Q104 **Chair:** Indeed. You made a point about it not having disadvantaged the people of Cambridgeshire, but delaying any city bid or whatever they might get will have disadvantaged them. The nuclear option inevitably has fallout damage. I ask you to think about what I have just said.

I thank the three of you very much. Ms Dawes, you are staying in your seat, because we have got a further inquiry on housing—is that right?

Melanie Dawes: Yes, if you wish to ask any questions on housing, I am happy to answer them.

Chair: We have a follow-up hearing on our previous report on housing, do we not?

Melanie Dawes: I was aware that you may wish to ask some questions about housing as part of this hearing, and I am very happy to answer them. I am sorry, I just was not clear that it was a separate hearing.

Chair: That's fine.

Melanie Dawes: Perhaps Mr Ridley can stay as well, because he is leading on many aspects of our housing policy.

Chair: I am perfectly happy with that. Ms Ney, I thank you again for appearing this afternoon and for the excellent work you are doing.

Examination of witnesses

Witnesses: Melanie Dawes and Simon Ridley.

Q105 **Chair:** There are two other issues that I want to raise with you, Ms Dawes, before we get to housing. One is on Carillion. Could you tell us the extent of your Department's contracts with Carillion and what steps you are taking to safeguard those contracts?

Melanie Dawes: Yes. We have no direct contracts with Carillion as a Department. We have one contract in what was formerly called the Homes and Communities Agency, which is now Homes England. Homes England is looking into that and Simon may be able to say more about that.

There are two other things we have done, though. The first is to work with the local government sector. I think the Local Government Association has done a very good job in corralling that work and individual councils have also done a good job to make sure that where there are direct contracts or direct services, those services continue.

The second thing we're doing, which is in addition to that, is looking at—if you like—second-round issues, where Carillion is delivering aspects of the infrastructure on individual sites in which Homes England, or indeed the local growth fund, may be involved. We have got those mapped and we are working with the local authorities and developers and so on that are concerned, to make sure that wherever possible we can continue the work that was originally intended.

Q106 **Chair:** An organisation called *Wired* says that between 2011 and 2018, 149 local government bodies spent £1.3 billion on services with Carillion. It also says that all but one of England's 27 county councils had a contract with Carillion, as did two—only two—of London's 32 borough councils. So there is clearly a continuity of service, particularly in schools, by local authorities that is really important, and I'm wondering what your Department is doing to monitor that, to make sure that we don't get any disruption. I know it is principally a matter for the local authorities, but clearly, as the sponsoring Department, this is a really important matter.

Melanie Dawes: Yes, it is an important matter. As I said, we have been working very closely with the LGA. We have got an oversight over all those contracts. We are not aware of anywhere where the local authority concerned is asking us for particular help from central Government. As you know, there has been an awful lot of work on central Government's own contracts, and those relationships are available to support any local authority that wishes to bring them to bear in their own negotiations locally. So far, however, local government has done a good job in making sure that the services continue, which is the priority.

Q107 **Chair:** If a particular local authority came to you with a request, would you look at that carefully?

Melanie Dawes: We would immediately try to help them. I mean, we would escalate that to the Cabinet Office, which is overseeing this overall programme of work, and we have had a director general from the Department in those conversations all along—our director general for local government and public services—so that we can make all of those links.

Q108 **Chair:** Unless any other members of the Committee want to put any questions on that, I will move on to the dreadful subject of Grenfell Tower and the combustible cladding on that building, and the need to look at all other such buildings. Of the 284 problem buildings, we are that told 162 were social housing towers, 102 were private towers—defined as 18 metres or more in height—and the remaining 14 buildings were public buildings in the health and education sector. So, of the social housing towers that failed all the tests, 57 have started to remove the cladding, with just under half having completed the job. It does sound like quite slow progress in what is a matter of life and death. Is your Department sort of chasing those social housing sectors, to make sure they are getting on with the job?

Melanie Dawes: We certainly are chasing them, where necessary. Right from the beginning, we were very concerned to make sure that we had a full audit of every single tower block that had a concern. We started with the social housing sector and we had that audit within a matter of weeks.

You say the progress is slow. I think it depends a bit—in some cases, this is the whole block and all of the cladding needs to be removed, and it is not a trivial task to organise and contract for that work.

What we also have been very clear about—indeed, I wrote to every local authority and housing association owner of any tower block on the Sunday after the fire about it—is that every building needs to have intermediate actions taken to ensure the safety of the residents while any changes to the cladding are carried out, and that includes things like a waking watch, checking of fire doors and so on. All that advice was given on the proviso that it must be the local fire services and local authorities—or the housing associations—that do this together. It is not just a matter for the building owner; it is very much in partnership with the fire authorities as well.

We are continuing to track that progress. We have set up a programme here with a very disciplined approach to gathering the data, because we share your concerns that the work needs to be done as soon as possible.

Q109 **Chair:** I am very grateful for that answer. We might ask the Comptroller and Auditor General to keep in touch with your Department to make sure these blocks are being remediated in a timely fashion, because it is a matter of health and safety, and there is nothing more important.

Moving on to "Housing: State of the Nation", housing is one of the biggest priorities facing the Government. Indeed, that is why your Department's name was changed to incorporate housing. It is one of the most important issues facing people's lives. We can see all too clearly set out in the NAO Report that the supply of housing has fallen short of demand in this country for years. The Government have acknowledged the magnitude of the housing situation we are in, but we are not convinced that they are exploiting all of the ways they have open to them to increase the supply, or that their actions are co-ordinated enough. Our scepticism was only increased by a fairly weak response to our Report, with the Government rejecting two of our recommendations. We would like, if we could, Ms Dawes, to question you on your responses to our Report. This was the sixty-third Report of the 2016–17 Session.

Recommendation 1 stated: "In its Single Departmental Plan, the Department should publish a 'housing gap' figure (updated on an annual basis), showing the difference between the latest rate of net additional housebuilding and estimates of the rate required to meet demand as identified in its recent White Paper." I am wondering why it is so complicated to do that, because you disagreed with that recommendation.

You said, "As part of its Housing White Paper, the Department consulted on introducing a new housing delivery test. The proposal would use an area's estimated housing requirement from its local plan as a baseline (or household projections where no up-to-date local plan exists ahead of a standard approach to local housing need... It would compare this estimate of the rate of housebuilding required with net additions to highlight whether the number of homes being built is below target. The housing delivery tests will be presented as the percentage of housing delivery above or below the local housing requirement, with consequences applying at certain thresholds."

If that was complicated for me to read out, it is certainly complicated for the average person to get to grips with. It was a relatively simple request and I cannot quite understand why, rather than have to do things as a percentage, we simply could not have two numbers: the housing demand in each local authority and the actual number of houses being built in that local authority. We could then see how that would contribute towards the Government's aim of building 2 million houses by 2020. Why could the Government not have conceded to the Committee's recommendations?

Melanie Dawes: I am sorry that this continued to be a difference between us. On the question of the local figures, you will be able to have quantitative numbers and not just percentages. As you say, it is a fairly complicated description. If we can clarify it, we will happily do so. In the early autumn, the Government consulted on a different and more stringent approach to calculating housing need at the local level, which for the first time has a single consistent formula, but also includes in that formula the question of affordability, so that need is dependent not just on the number of people who are going to live in that area and the number of households, but also whether or not they can afford to buy the homes that are there. If you are in an unaffordable area, the formula will adjust your need upwards so that the council will have to build more than they do in accordance with the current normal formulas that are used. That is quite important.

That question of need, which I know the Committee was particularly concerned about in its recommendation, is one that we think is most relevant at the local level, because that is where the affordability issues bite in such different ways across the country. As well as changing the definition in the local planning requirements, the housing delivery test, which is also being introduced, will put the pressure on local authorities by publishing data and holding them to account about delivery against that more stringent set of needs.

As that system comes on stream with the national planning policy framework, which we expect to amend later this year, there will be quite a lot of data, which may be expressed in a less complicated fashion than in our reply in the Treasury minute.

Q110 **Chair:** That sounds like a step in the right direction. When is it likely that the data will come on stream?

Simon Ridley: We will publish the new NPPF over the course of the spring. The precise date is to be defined. That will set out for each local authority the expectation of need, based on the formula. There is an existing set of numbers for that in the consultation from the autumn. We will run the delivery test for the first time in shadow form towards the end of this year—that will be the first time that you can compare the two sets of numbers. That will then happen every year, as local authorities update their plan in line with what the formula says.

Q111 **Chair:** If in an area such as mine the housing needs figures go up, will the local authority be required—even if it has an adopted local plan—to adjust its local plan to meet that housing need?

Simon Ridley: Yes, but we have given a timescale over which local authorities need to do that. There is a period of a short number of years that gives local authorities with a plan in place the opportunity to update that to a sensible timescale. There are a number of local authorities either with very old plans or with no plans at all, where we require them to get those plans updated and in place much more quickly.

Q112 **Gareth Snell:** My local authority in Stoke-on-Trent is just at the point of consulting on its local plan. What sort of time delays do you envisage? It has gone through an optional consultation but suddenly it has to revise its housing land availability and housing needs. That leads to a delay. Have you done any work with local authorities to work out how long it will be before those plans can be presented for sign off by the Secretary of State, given you are going to make them redo their numbers?

Simon Ridley: We set out timescales in the consultation—I am afraid I do not have the precise ones in front of me, but I would be very happy to let you know. They provide opportunities for local authorities to not delay, but precisely the opposite: to get their plans in place on the basis on which they consulted them, before we bring in the new formula. Over the course of the next cycle, when plans are updated—typically every five years—they will need to update in line with the formula.

Q113 **Chair:** If you let us have that information, Mr Ridley, we will incorporate that into our report.

Simon Ridley: Yes.

Q114 **Bim Afolami:** On the Government's policy for the total target of 300,000 homes a year, what do you think the impact will be of reaching that target? Say the Government achieve their aim and DCLG gets it right, what do you think the impact will be?

Melanie Dawes: We are aiming for a more stable and more affordable housing market. Those are the ultimate outcomes we are aiming to achieve by building more homes and getting closer to the kind of figures that the country needs. I understand that your question is trying to get at the impact on the wider market. Once we stabilise prices, it could be quite a significant change for all those in the industry.

Q115 **Bim Afolami:** Say that by 2020—to pick a date out of the air—we are building 300,000 homes a year, do you think that house prices would stabilise?

Melanie Dawes: The Government commitment is to reach those sorts of levels by the middle of the next decade, but the figures for this Parliament are consistent with achieving maybe 250,000 a year by 2020, which is still a very high level. It is very hard to put a figure on exactly what that kind of level of house building would mean for prices. We are aiming to stabilise prices, particularly in relation to earnings. We have models that allow us to assess that, but they are all based on decades' worth of data when we were not achieving those sorts of levels: the highest we have ever got to before in net additions was in the mid-1980s, and that was nowhere near 300,000.

If we started to reach those levels and if, critically, the industry believed that they were going to be sustained, we would start to see people taking different decisions about their investment plans, and we would hope to bring more small builders into the industry. They are currently put off by the fact that they cannot cope with the big swings in assets prices—they cannot manage that level of risk. Hopefully, we would also see individuals making different decisions: feeling more able to make longer-term decisions that are not subject to the vagaries of the house price cycle. Once people start to believe that it is going to happen, that will be one of the things that starts to make it happen.

Q116 **Bim Afolami:** I accept that it is hard to do in a very quantitative way what I am asking you to do but, bearing that fact in mind, is it not true that a lot of the policy levers that drive housing affordability or, again, supply, are not in DCLG's hands?

Melanie Dawes: Many of them are in our hands: planning reforms; the investment that needs to be made by Government; and issues like skills. We are working very closely with the industry. There is a wide array of policy levers that the Department has at its disposal. We also work very closely with other Departments, such as Transport, which is a very key player in really getting developments off the ground, and DWP, because, particularly when you are thinking about affordable housing, the housing benefit regime, as we discussed in the hearing on this topic a little while ago, becomes very important.

Chair: We are coming on to that.

Melanie Dawes: We have many of the levers at our disposal—not all of them, but some. I think that, within Government, particularly when we bring the Treasury into play and start to think about tax and so on, we have a lot we can do.

Q117 **Bim Afolami:** I suppose that the thing we always have to try to do on this Committee is assess when, if at all, a Government policy actually achieves the aims that it set out. At what point would you say we would be able to come back—it may not be you; it may be very far in the future and someone else sitting in your position—and say, "Okay, we can assess what was the impact of this huge increase in house building"?

Melanie Dawes: It will be some years to come—maybe you will call me back or maybe it will be a successor of mine. What I can say is that right now we are looking at precisely what kind of evaluation policy we can put in, and I would be very happy to come back to the Committee on that. On one of your recommendations—I think it is recommendation 3(b)—we have not gone as far as you have asked, but we would be happy to set out our broader approach to evaluation. We will certainly be publishing short-term measures that say, particularly for the affordable homes programmes and more straightforward programmes such as that, "Here is the progress we are making". There it is much more clearly about numbers and outputs. Where we are looking in a more systemic way—if you like—at the impact of a variety of reforms, from planning to financial contributions and so on, it is a harder question and is best done by looking at evaluations as we go on, rather than analysis up front. But we are happy to come back with a fuller plan on that.

Q118 **Chair:** Okay, that is really helpful, and goes to the root of it. I am conscious that the clock is getting to a fairly late hour, so I want to rattle through this.

Our recommendation 2(b)—"To aid evidence-based consideration of alternative policy options to accelerate housebuilding"—says that the Department should write to the Committee "within six months with estimates of how many homes council will be able to build up to 2020 under current financing arrangements, and with details on what other, more innovative measures councils can pursue to developing new housing".

That seems a fairly straightforward recommendation but you rejected it on the grounds, at paragraph 2.4, that it "is not possible to provide an estimate of the number of homes councils could deliver by 2020—both because the funding of new homes is dependent on receipts from sales under the Right to Buy scheme which may rise and fall"—we know that—"and because the vehicles councils use to develop homes outside of the housing revenue account vary considerably in number, size and constitution". We know all that, but why could you not publish an estimate and then update it in the light of changing circumstances? If you do not have an estimate of how many houses councils are going to build, how are you going to meet that 2 million target?

Melanie Dawes: We certainly track the data as house building happens, so we do publish figures in arrears, but we simply do not publish forecasts or estimates of total council house building. We certainly look overall at the affordable homes that we expect to be built, but the point about right-to-buy receipts is that, in some areas, councils, for whatever reason, are returning their receipts to Homes England for them to contract with a housing association to deliver, rather than the council doing that building themselves. From the Department's perspective, that is fine, provided that the home is built. But that would determine how many homes were built by councils rather than by housing associations, and it is that sort of issue where we do not have a prescription for councils, and therefore it is one of the reasons we do not produce forecasts.

Q119 **Chair:** But if you do not publish the data—certain councils are woefully behind producing what your new housing needs criteria says they should be—we could get to 2020 and find that we are way adrift with the 2 million. We hope that we will exceed the 2 million, but one of the ways of achieving it is surely through transparency and knowing what every local authority is actually doing?

Melanie Dawes: Sorry, just to avoid confusion, I was talking about councils building their own homes, not about the total numbers that we were discussing earlier.

Q120 **Chair:** Yes, I accept that, but councils and the social housing rented sector are an important sector in building new homes in this country.

Melanie Dawes: They are, and we support them making more efforts to build more. The other factor is, of course, that some of them are doing so outside the housing revenue account, through joint ventures and so on. Again, that is something that the Government support, but we do not have an ambition about how great the level of building by councils specifically should be. We simply do not produce those kinds of forward figures, although, as I say, we do track council house building as it happens.

Q121 **Chair:** I am not sure how your Department will know whether it is going to meet the 2 million target or not then—or are you saying that you have these figures but are not prepared to publish them?

Melanie Dawes: No, we do not have a forecast for council house building.

Q122 **Chair:** Not even internally?

Melanie Dawes: No. We will be looking at the affordable homes programme over the coming months, where we have expanded the criteria and, indeed, there is extra funding for social rent. Some of that may well go to councils. Of course, we have also put in place more borrowing flexibility—the extra £1 billion of housing revenue account borrowing that was announced in the Budget. Those are two things that will support councils, but they are not things where we have specific figures at this stage in terms of homes. We may be able to say more specifically about the impact that we expect to achieve from the additional housing revenue account flexibility that we have given to councils. That is something that we will be determining the details of in the coming months.

Sir Amyas Morse: Surely the policy objective is not just to build homes from your different funding streams. You have an overall policy objective to build a number of homes. Surely you need to have a measure of whether you are on the road to achieving that or not. Isn't that a priority? Instead of just coming up with a whole lot of different conflicting measures, isn't it just as relevant to know how many homes councils might be building as anyone else? Surely, in order to be able to report on your progress to your Ministers, if no one else, you have to be able to estimate these things, even in an approximate way. Are you really saying that you don't have a clue about that?

Simon Ridley: No. There are two really different things here. The Government have a really clear ambition around 1 million homes, a further half a million, and then 300,000 a year by the mid-2020s. We have done work based on our housing models, which, as Melanie said, are based on a range of retrospective experiences, GDP forecasts, and a number of other things that enable us to build a model of what it would take to deliver 300,000 homes, but there are wide variances in that.

The vast majority of homes will be built by the private sector, so we need to make sure that we have got the approaches to that right. The affordable homes programme will need to deliver a large chunk of that. Whether they are built by councils or by housing associations, as Melanie said, is not a critical thing to understand. What we need to do, as we allocate the money, is ensure that we have the plans in place for those houses to be built. All we are saying is that we do not forecast specifically what councils themselves, as an individual set of entities, will build.

Sir Amyas Morse: I do not think that is what the Chair was really driving at. What he wanted to know is what you report to your Minister if he says, "I have this major policy commitment; I want to know whether we're making progress against it." It is nice that you have a model, but how do you compare it with real numbers? Aren't you gathering numbers together? Aren't you projecting, and looking at those numbers and saying, "Okay—it may not have turned out quite how we thought it would, but it is all broadly on track"? That is really what we are asking about. That is what the Committee wants to know about.

Simon Ridley: Please say if I am misunderstanding, but every November we publish a set of net additions statistics that show how many houses have been built across the country—net additions to the stock. That was 217,000 in the autumn, and that is the number that we are aiming to drive towards 300,000 by the mid-2020s.

Q123 **Caroline Flint:** But that doesn't really break down how it is dealing with housing need. It is useful to know not only the numbers, but what the tenure of those properties will be or whether they are for owner-occupiers. What does "affordable homes" mean? Does it mean those who do Share to Buy? Where does that leave those people who are in the private rented sector? How much more social housing rent do we mean?

I have to say that if I was the Minister, those are the sorts of figures that I would be asking for to understand better, when local authorities are developing their housing plans, which they should do and the Department helps them with—when I was there the Department used to provide all sorts of information to identify the demographics of that area and what the needs might be to see that there could be matching up—not just the headline figure, but what types of housing are being built, under what sorts of tenure they are being built and therefore how they meet not only existing need but need going forward as those demographics might change.

On the point, Ms Dawes, about the capital receipts, if they are in an area with pretty low value, perhaps the reason why those local authorities are having to pass it off to another agency is that the sum of all those capital receipts does not add up to a huge amount for them to build homes in their own right. Is that not the case?

Melanie Dawes: There are a number of questions in there.

Q124 **Caroline Flint:** Why can't we have the breakdown by tenure of the headline figures of the houses that are being built?

Melanie Dawes: You do have that figure available for the figures that we publish every year in November about house building for the previous financial year. We also publish figures—

Q125 **Caroline Flint:** Within that, why can't we have how many homes councils are building broken down?

Melanie Dawes: We do produce those figures. What we have responded to and disagreed with in the Committee's recommendations from earlier last year was recommendation 2b), which asked us to produce estimates of how many homes councils specifically would build in the future. We are saying that we just do not have those forecasts; but we do publish the data in arrears, which was part of our response, and we also publish a lot of data as part of our affordable housing programme releases.

Q126 **Chair:** At the risk of over-labouring this really important subject, if I was the Housing Minister in your Department and I had to account to Parliament on a regular basis for whether we were likely to meet this 3 million target, I would be saying to you, in every single sector, whether it be housing, social, rented, self-build, private sector, mutual societies or whatever, that I need a continuous forecast so that I know whether I am going to hit that 3 million—2 million—figure, or whether I am going to be way adrift from it. I might be way under it, or I might be way over it. If you do not do the forecast, how do you know that you do not need additional stimulus in certain sectors to make sure that you do meet that?

Melanie Dawes: We do have that across the piece and we do have models that look at these estimates in some ways, but we do not have forecasts specifically for council house building. One of the reasons for that is that it has been a very small number of homes built in the recent past—in only the single thousands a year. Although it has grown rapidly recently, it is still a very small sector because over a number of years the focus on building affordable homes has been to deal with housing associations. There we do have analysis of that sector as a whole, but I am just being honest with you that we simply do not produce these projections, and that is why we answered the Treasury minute as we did for that specific forecast.

Q127 **Caroline Flint:** It seems to me that that is even more of a case for being able to look to the future and develop a system to estimate better. The other part of our recommendation was about other innovative measures that councils can pursue to develop new housing. The Government, your Department and other areas are coming up with all sorts of ideas. Again, would it not be a good idea to start as you mean to go on, look at these and be able to test out the different innovations that the Government are coming up with to see if they are producing the outcomes? I noticed today that the Chair of the Treasury Committee, a cross-party Committee, is supporting removing the caps or restrictions on local councils borrowing to build more council homes. These are live issues, and it seems a really brilliant opportunity for your Department to get ahead of the curve.

Melanie Dawes: They are very live issues. Of course, the Government announced an extra £1 billion of local authority headroom on the housing revenue account in the Budget, and we are going to be working out exactly how to distribute that. It is intended for high housing-need areas and areas of low affordability as a priority, but that was specifically to respond to that concern of local government.

I do not know whether the Committee has seen my letter to Meg Hillier of 10 January, which responded to some of the concerns set out in her letter to me of early December, but the annexe there does set out some of the recent analysis that has been done by the industry of the different ways in which local authorities can innovate on house building, so not just through the housing revenue account but looking at joint ventures and so on, or the private companies that some of them have set up. We have set out the information that is available on that, and I am wondering if it helps.

Q128 **Chair:** Perhaps we should move on. On recommendation 4, "The Government spends around £21 billion each year on housing benefit, but does not know what contribution this money makes to the supply of new housing", and 5, "Too often, the Government is subsidising landlords in the private rented sector to provide homes below a decent standard", I suppose the first general question to you is, how can your Department liaise with the Department for Work and Pensions to more effectively produce more homes of decent standard, particularly in the private rented sector, which seems to be lagging behind the public sector?

Melanie Dawes: We have committed to coming back to the Committee by the summer of 2018—that is the original commitment that we made in the Treasury minute, and we will stick to that—with the results of some work we are doing with the Department for Work and Pensions on how housing benefit is used, what impact it has in the private rented sector and how we can make more of those significant financial flows to support house building and to raise the quality of homes that people are living in. We have committed to come back on that but haven't done so yet.

There was also a request of us, which we committed to responding to by the end of December 2017, for information on how much housing benefit is spent on private rented tenancies where homes are not of a decent standard. We have, I'm afraid, missed that deadline. We wrote to you before Christmas to explain that, but the work is all but ready and should be with you by the end of this week or, if not, certainly by the end of January. I apologise for that delay. It is simply due to the right people being in the right place to do it on time. I was having a look at it this morning, and it is nearly ready.

Q129 **Chair:** I accept that. Do you have any preliminary ideas as to how this housing benefit might be used to increase that? The private sector is lagging behind the public sector on decent homes standards for places occupied by people on housing benefit; there is therefore a need to do something. It is different from the public sector. Do you have any preliminary views of how this might be done?

Melanie Dawes: We are doing things like upping the ante on rogue landlords. We are also doing a review of the private rented sector more generally, which is around looking at options for raising quality, so there are things we can do, particularly on the decent homes side. I think, if I'm honest, what is quite hard is to have the same impact on house building in the private rented sector through the payments of housing benefit that we make as we are able to have in the social sector. There is a business model that works in the social sector, which we all understand. Housing benefit has that double impact in the affordable housing sector of helping people to have an affordable rent and helping more homes to be built, because housing associations and councils can borrow against revenue streams. The trick with the private rented sector is to develop methods for new build in that sector that can use some of those same business models effectively, but whether that is specifically for those in receipt of housing benefit or more generally is a question that is moot at this stage. That is just a harder policy question for us to crack, but we will come back to the Committee on these questions in the summer.

Q130 **Chair:** We will look forward to that with interest. So what is your impression? Having tested you on these forecasts and everything else, how are we progressing against our target of 2 million houses?

Melanie Dawes: We are making progress: 217,000 net additions is the latest figure, which was released in November. That is one of the highest for many years, but we are under no illusions in the Department that this is a really big challenge. To get up to even 250,000 homes a year, and certainly 300,000, is something that the country has not achieved for many decades. Even in the 1970s, we were not, once demolitions are factored in, at those kinds of levels. The Government have set out a very ambitious set of policies, and yes, ambitious levels of funding, but also ambitious planning reforms, as we were discussing earlier. It is going to require us to gear up our delivery capacity, and to get much clearer about the outcomes and the outputs and how we will monitor progress. Some of the points you have been making about that are well taken and appreciated. Even if we are not publishing the specific figures you are requesting, we are certainly planning to gear up how we run all this. It may be that we will publish more material as part of that in due course.

Q131 **Chair:** Finally, I suppose the two impediments to meeting that figure are the planning system and the big house builders. First, on the planning system, do you think you will meet resistance from local authorities like mine, which, under their new housing needs projections, are up 50% on their plan and are scratching their heads about where they are going to put these houses? Do you think you will meet considerable resistance from local authorities to the number of houses they now need to build?

Melanie Dawes: To some extent, you are asking me a question about local political priorities.

Chair: I am asking you a question about the planning system really, specifically.

Melanie Dawes: And whether these requirements will fit with those. I am sure that we are going to meet some resistance, but when you factor in some of the other policies that the Government have put out there, such as the housing infrastructure fund, which is designed to tackle what is often the biggest concern from local authorities and communities—a lack of infrastructure to go alongside new homes—we have quite a lot of policies to bring to bear to persuade people that it can be done. In recent years we have seen public concern about lack of affordability rising so greatly—you can see that in opinion surveys in a number of different respects. My sense is that local leaders understand the need, and we are trying to work with them so that we can understand and respond to the concerns.

Q132 **Chair:** The second part of my question was about the big house builders who—this is a long-held hobby horse of mine, and I declare my interest as a chartered surveyor—tend to get planning permissions and then sit on them or only build them out according to how many houses they think they can sell, rather than how many houses they ought to be building. Do you have any proposals to make the house builders build out their planning permissions quicker?

Melanie Dawes: Yes; Simon may want to say more about this. Sir Oliver Letwin is doing a review for us right now, looking at precisely that question of build-out—the speed of building to permissions. More generally, the large house builder model of extremely high returns of 25% or more, on the basis that there is significant risk in the system because of the cyclicality of house prices—they constantly have to save for the rainy day of a recession—has not served us well. It is both a cause and a consequence of the very big swings in house prices that we typically see in this country. If, as I was saying earlier, we can get to a stage where there is a genuine belief that that model will change, that will change the house builders' model and hopefully entice more small and medium-sized builders back into the market, because, sadly, with each recession, we have seen fewer and fewer players in the market and that has made the problem worse.

Q133 **Gareth Snell:** On that point, the Chair is absolutely right about the large house builders' model being to build out enough to cover their own costs, but the implication is they then do not pay their section 105 agreements because they haven't completed a sufficient number of dwellings to trigger them—

Chair: Section 106.

Gareth Snell: Section 106, yes.

The other thing is, routinely, they get their planning permission in good time, they wait for house prices to drop, and they go to the district valuer and say, "This scheme is no longer viable with the current level of social affordable provision. We need to go back." They then get amended planning permission. Is your Department looking at how, if they get permission on day one with certain caveats, those caveats are carried through to the very end, rather than allowing them to cheat local people out of infrastructure and affordable housing?

Simon Ridley: The key thing we are doing, following the announcement in the Budget, is that Sir Oliver Letwin is leading the review Melanie mentioned, which is looking explicitly at the gap between planning permissions given and numbers of houses built. He is doing that in a very practical way, based on looking at a number of sites around the country, with different characteristics. That work has started. He started his visits with the team this month and will be coming forward with the proposals that he develops through that work, but focused absolutely on that question.

The other thing I would say, just in terms of the overall policy strategy we are pursuing, is that we also have a number of policies to support small and medium-sized builders and to help them to come into the market to provide some of the competition, if you like, around sites individually. For example, Homes England gives loans to support small builders into development. That work, alongside work to increase innovation in the market through modular construction and other things, is all about making other building models work more efficiently so that we can have some more pressure around the country to get houses built.

Q134 **Caroline Flint:** To go back to the point that my colleague, Mr Snell, made, yes, the ideal situation is that to get local people on board, the infrastructure goes along with the housing development, but if there are so many loopholes in the system that allow the volume developers to find a way around managing how they build out and therefore avoid having to pay for their section 106 or, for that matter, to the infrastructure fund, the inevitable happens. Not only do you not get the infrastructure, but, as we have seen, I think it was a Government policy, certainly in the 2010-15 Parliament, to loosen the arrangements around affordable housing being built on some of these sites. In fact, I can testify that in Doncaster planning permission was given only on the basis of a number of such homes being built, and then, as Government changed policy, the people with those planning permissions came back for an adjustment to their planning permission to reduce the amount of affordable housing. That is the case, isn't it? We have a system in which constantly there are loopholes by which the bigger developers often get the best out of whatever system is created. Isn't that the case?

Chair: Before you answer that question, may I couple it with another of my hobby-horses—viability? As Ms Flint says, the developers are very good at coming back and arguing the number of affordable houses down. It seems to me that where the market does better than predicted at the time of grant of planning permission, the local authority ought to have the ability to go back and say, "Actually, you've done better than your feasibility study originally said and therefore we want to relook at the percentage of affordable housing." Is it in Sir Oliver Letwin's brief to look at that aspect?

Melanie Dawes: Perhaps I'll let Simon come on to that question. I don't disagree with anything that you are saying. In the end, section 106 is a negotiation between the developer and the local authority; and like all negotiations, it is subject to there being the right information on both sides so that each side can be well informed enough to push the other when they need to. Sometimes, utility companies, frankly, play in this space as well. I have been to many sites where an initially very high cost for a utility, such as water or electricity, then comes crashing down and all of a sudden more affordable housing can be put on the site than was previously envisaged, but it's too late in the process or whatever. This is the sort of thing that I think Sir Oliver is looking at.

When we introduced the community infrastructure levy some years ago, that was designed to be more of a formula to get round some of these issues of negotiation, but that itself has not always worked in every area. There is no easy answer here is my sense, but we are very committed to looking at it.

The other thing I would say is that, now that the Government is bringing to bear really quite a big offer of loans and grants and also, of course, Help to Buy, there is a lot on the table to support developers, and it may well therefore be easier to contemplate some sticks in the system as well.

This is very much under review. I am talking here very much about ongoing policy development, but I go back to what I said earlier: we are not going to reach the levels of house building that I think we all know the country needs if we don't look at every single aspect of the system.

Q135 **Chair:** Surely what is sauce for the goose is sauce for the gander. If the developers have got the ability to go back to the local authority and argue down the level of affordable housing, but then the economy grows faster than envisaged at the time planning permissions is granted and the viability is way exceeded, the local authority ought to be able to go back to the developer and say, "Actually we want to relook at the percentage of affordable housing." I have got a big local development in my patch that has just been granted, and the developer has argued the percentage down from 50% to 30% on viability grounds. That may well be right in 20 years' time when they finish the development, but it may not. I do not know. But surely there ought to be an ability at least to look at it again.

Simon Ridley: I hesitate to make policy. We are doing work to look at section 106 agreements, in the main, as intimated, to try to simplify how they work, because they take an awful lot of time in the process.

You asked a specific question about Sir Oliver's review, about build-out. He has a reasonably wide brief, because we want to ensure that what comes forward is the issues that are actually causing the gap between permissions and build-out—I dare say that, if section 106 agreements are part of that, he will bring forward thoughts. What they will be, at this stage I cannot say.

Chair: I think we have got as far as we will today. Thank you both very much. It has been a long session and you have been very helpful on both subjects. The Committee is very grateful for that.