

**Public Accounts Committee
PAC(4) 10-13 Paper 4**

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Chair of the Public Accounts Committee
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Cardiff Bay
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Dear Chair

PROGRESS IN DELIVERING THE WELSH HOUSING QUALITY STANDARD (WHQS)

The Clerk's letter of 26 October 2012 requested my advice on the response from the Welsh Government to the Committee's September 2012 report '*Progress in Delivering the Welsh Housing Quality Standard*'. This letter sets out my advice on the response.

I am responding promptly, and perhaps more fully than is usual, as I am aware that there is a plenary debate scheduled for 14 November to discuss the Committee's report. However, in doing so I should point out that the WAO study team has not yet had the opportunity to discuss with Welsh Government officials the response and other issues arising from the Welsh Government's recent publication of updated figures on social housing landlords' compliance with the WHQS. That statistical release, published on 15 October 2012, is available at <http://wales.gov.uk/topics/statistics/headlines/housing2012/121015/?lang=en>.

The Welsh Government has indicated that it accepts seven of the Committee's 11 recommendations. The remaining four recommendations have been accepted in principle, as acceptance is subject to further work or developments that are outside the Welsh Government's direct control.

While the Welsh Government's overall response to the Committee's recommendations is positive, there are several issues that would benefit from further clarification. Set out below are my observations on the responses to the individual recommendations. I have also included comments on the extent to which the Welsh Government's responses address the (additional) recommendations set out in my January 2012 report, which formed the basis of the Committee's examination of the WHQS.

Observations on the Welsh Government's responses to the Committee's recommendations

- The responses to *Recommendations 1-3, 7, 9 and 10* refer to a planned evaluation of the WHQS.
 - The responses refer to some of the issues to be covered by that evaluation, such as tenant engagement and the validation of compliance data, that are linked to the Committee's recommendations. In light of the prominence given to the planned evaluation in the Welsh Government's response, the Committee may wish to seek further information on the scope, likely costs and timetable of the proposed exercise and, in particular, how it will add to rather than duplicate previous and other ongoing work related to the delivery of the WHQS.
 - One of the recommendations in my January 2012 report on the delivery of the WHQS concerned the Welsh Government clarifying its intentions in terms of possible changes to the minimum requirements of the WHQS. The Committee's report recognised the concerns of various stakeholders about the possible impact of any changes but also considered that there were strong arguments for reform, particularly in respect of energy efficiency standards. The Committee may wish to confirm whether the requirements of the WHQS are being considered afresh as part of the planned evaluation.
 - The timescales for the completion of the proposed evaluation could be clearer. The Welsh Government's response refers simply to it being about to commission this work, which will report at some point during 2013 to inform the implementation of further good practice guidance by March 2014.
- The Welsh Government's response to *Recommendation 1* notes that the performance of registered social landlords in engaging tenants, including in relation to the WHQS, is being assessed against key delivery outcomes set out in the regulatory framework. The Committee may wish to know more about the extent of variation that the Welsh Government is identifying in the performance of registered social landlords under the new regulatory framework. The response also explains that local authorities retaining their housing stock have agreed on a formal but voluntary basis to report against similar delivery outcomes. The Committee may be interested in exploring how this voluntary reporting arrangement will work and what, in practice, the Welsh Government's statement that 'where landlords are not performing well, they will be subject to regulatory intervention' means for local authority landlords.

- *Recommendations 2, 3 and 10* related to the introduction of independent, external verification of landlords' reported compliance with the WHQS, building on a recommendation in my report about arrangements for validating landlords' monitoring returns. The Welsh Government has accepted in principle the Committee's recommendation that it should enable the introduction of such external verification. The response describes how the planned evaluation of the WHQS will include random sampling of properties, although the scale of the planned sampling exercise is not clear. It will also draw on information from verification work already commissioned by individual landlords. The Welsh Government's response raises concerns about the potential cost impact on smaller landlords of them commissioning their own external verification. However, the Committee's recommendation related to the Welsh Government assuring itself about the robustness of landlords' monitoring returns. In any case, there should be nothing to stop landlords collaborating to achieve economies of scale.
- In responding to *Recommendation 4*, the Welsh Government refers to ongoing work with regard to the environmental standard requirements by the Tenant Participation and Advisory Service. The Welsh Government has confirmed that it will issue guidance to landlords by 31 March 2013 requiring them to demonstrate that they have gone through an appropriate process in their business planning to identify and prioritise wider environmental improvements to the surrounding areas of properties. Given that the guidance has not been developed yet we cannot comment on its quality. However, the proposal to issue guidance should be welcomed. This is because the statistical report published by the Welsh Government in October 2012 indicated that some landlords had still not developed a strategy or policy to support compliance with the WHQS environmental standard requirements.
- During the course of its inquiry, the Committee expressed particular interest in the possible reform of the Housing Revenue Account Subsidy system in Wales. In response to *Recommendation 5*, which it accepts in principle, the Welsh Government has indicated that the Minister for Housing, Regeneration and Heritage has already said that ideally he would like to see an end to the transfer of revenues by 31 March 2013. However, given that no agreement has yet been reached on the principle of any reform of the system the Committee may wish to explore the practicalities of now meeting that deadline. The Committee may also wish to enquire further as to how the Welsh Government is engaging with other appropriate organisations to inform its negotiations with HM Treasury, ahead of any further engagement about the practical arrangements for delivering change if and when an agreement is reached. Apart from the possible reform of the Housing Revenue Account Subsidy system, one of my recommendations had encouraged the Welsh Government to explore the full range of policy options to overcome barriers to the achievement of the WHQS, in particular for those local authorities that still retained their housing stock but that had not identified means

of achieving the WHQS. Whether or not possible solutions, other than reform of the HRA system, are being looked at is not set out in the Welsh Government's response to the Committee's recommendations.

- The Welsh Government accepts *Recommendation 6* and notes that there is already a range of guidance in place with regard to maximising wider benefits from WHQS-related expenditure. The Welsh Government has also indicated that Value Wales guidance on maximising community benefits from procurement is currently being updated for issue in January 2013. As I set out in my report on the WHQS, a previous Ministerial Task and Finish Group on housing and regeneration sustainable community investment had concluded that there was no shortage of advice for landlords on sustainable procurement related issues but, despite some examples of excellent practice, take up of that advice was patchy. The Task and Finish Group was established in 2010 by the then Deputy Minister for Housing and Regeneration and reported in March 2011. One of our recommendations concerned the need for the Welsh Government to respond promptly to the Task and Finish Group's recommendations by publishing a clear action plan to better coordinate work to maximise the wider benefits of WHQS-related expenditure. The Committee may wish to confirm whether or not the Welsh Government has yet responded, or intends to respond, to the recommendations of the Task and Finish Group. We also recommended that the Welsh Government should develop a clear framework for assessing value for money (including the wider benefits achieved) from landlords' expenditure on the WHQS and clarify its expectations in terms of landlords' data collection regarding those wider benefits. It is not clear from the Welsh Government's response whether, as part of its 2012 WHQS monitoring exercise or through other means, it has now sought to establish processes for collecting more consistent data about those wider benefits.
- One of the issues raised by the Committee's report concerned the quality of the underpinning data supplied by landlords to inform the figures published by the Welsh Government in March 2011 on compliance with the WHQS. The concerns about data quality also related to the interpretation and reporting of the number of, and reasons for, 'acceptable fails'. *Recommendation 8* urged the Welsh Government to develop guidance to ensure landlords' own data collection highlights the reasons for acceptable fail classifications. The Welsh Government's response and the statistics published in October 2012 suggest that the most recent data collection exercise, earlier in 2012, focused on reporting the overall prevalence of acceptable fail classifications. However, the Welsh Government has indicated that data collection in 2013 will be enhanced to record the main reasons for acceptable fails and that, in the meantime, there will be sample visits to landlords to establish how acceptable fails are being interpreted. Overall, the Welsh Government has indicated that it regards the data collection exercise undertaken earlier in 2012 as having been more robust than the previous exercise in 2010. The Committee may wish to explore the

basis of this assertion and the steps taken by the Welsh Government to confirm the validity of the data already collected for 2012, which are not clear from the Welsh Government's response.

- *Recommendation 11* in the Committee's report requested an update from the Welsh Government by the end of December 2012 on progress against the recommendations in my January 2012 report on the WHQS. Given their common themes, it is surprising that the Welsh Government's responses to some of the Committee's recommendations did not provide an update on related actions flowing from my recommendations. Nevertheless, the Welsh Government has accepted the Committee's recommendation and confirmed that it will provide a further response within the indicated timeframe.

Observations on the most recent data on landlords' compliance with the WHQS

In advance of the plenary debate on 14 November, the Committee might also find helpful my observations on the most recent data on landlords' compliance with the WHQS. These are set out below.

The data published by the Welsh Government in October 2012 – which report compliance with the WHQS as at 31 March 2012 – provide an overview across all social housing and compare performance between local authority landlords and other registered social landlords. The statistical report indicates that compliance data for individual landlords will be published later in the year.

While there appear to have been some changes in the reporting arrangements, the data published by the Welsh Government point to increased compliance with the various elemental requirements of the WHQS and an increase in the overall rate of compliance on a whole-house basis. The results of the Welsh Government's monitoring exercise in 2010 indicated that 26 of social housing complied with the requirements of the WHQS at 31 March 2010. The latest figures indicate that 42 per cent of social housing complied with the WHQS at 31 March 2012. Around one in four of these compliant properties included an acceptable fail classification on at least one element of the WHQS requirements.

The Welsh Government's latest statistical release does not include any information relating to projected compliance with the WHQS in future. The results from the 2010 monitoring exercise indicated that landlords expected that 60 per cent of all social housing would comply with the WHQS by 31 March 2013. In late 2011, some landlords reported to the Welsh Government that they expected to achieve full compliance sooner than they had previously indicated. The figures published by the Welsh Government in October 2012 suggest that substantial progress is still needed during this financial year to achieve the level of compliance previously projected by 31 March 2013. However, it is possible that some properties need relatively little work to move from non-compliance to compliance. We reported previously that, based on landlords' projections in 2010:

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- 42 per cent of all local authority owned social housing would comply with the WHQS by 31 March 2013 – the figures published by the Welsh Government as at 31 March 2012 show 23 per cent compliance (taking into account acceptable fail classifications); and
- 73 of all registered social landlord/housing association owned housing would comply with the WHQS by 31 March 2013 – the figures published by the Welsh Government as at 31 March 2012 show 54 per cent compliance (taking into account acceptable fail classifications).

Further action by the Committee

The Committee's report on the WHQS is to be the subject of a debate in plenary on 14 November and the Welsh Government, in responding to *Recommendation 11* of the Committee's report, has promised to provide an update on progress in response to the recommendations in my report by the end of December 2012. I would advise that the Committee awaits that further response and reflects on any matters of concern raised during the plenary debate before considering what, if any, further action may be merited in the short-term.

I trust that this advice is helpful to the Committee ahead of the scheduled plenary debate.

Yours sincerely,

HUW VAUGHAN THOMAS
AUDITOR GENERAL FOR WALES