



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

Cofnod y Trafodion The Record of Proceedings

[Y Pwyllgor Cyfrifon Cyhoeddus](#)

[The Public Accounts Committee](#)

30/1/2017

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

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

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

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

Eraill yn bresennol
Others in attendance

Clarissa Corbisiero-Peters	Dirprwy Brif Weithredwr, Cartrefi Cymunedol Cymru Deputy Chief Executive, Community Housing Cymru
Peter Hughes	Cymdeithas Adeiladu'r Principality/Cyngor Benthycwyr Morgeisi Principality Building Society/Council of Mortgage Lenders
John Marr	Uwch-gynghorydd Polisi, Cyngor Benthycwyr Morgeisi Senior Policy Adviser, Council of Mortgage Lenders
Stuart Ropke	Prif Weithredwr, Cartrefi Cymunedol Cymru Chief Executive, Community Housing Cymru
Nick Selwyn	Swyddfa Archwilio Cymru Wales Audit Office

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

Jonathan Baxter Y Gwasanaeth Ymchwil
Research Service

Fay Buckle Clerc
Clerk

Claire Griffiths Dirprwy Glerc
Deputy Clerk

*Dechreuodd y cyfarfod am 14:00.
The meeting began at 14:00.*

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

[1] **Nick Ramsay:** Can I welcome members of the committee to this afternoon's Public Accounts Committee meeting? Headsets are available in the room for translation and for sound amplification, should you need it. Please ensure that any electronic devices are on silent. In the event of an emergency, follow directions from the ushers. We've received one apology today, from Lee Waters, and there are no substitutions. Do any Members have any declarations of registrable interests that they would like to declare? No. Okay.

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

[2] **Nick Ramsay:** Moving on to item 2. We have some papers to note: the minutes from the meeting held on 23 January. Are Members happy to agree those minutes? Good. And a summary of discussions—you should have received a summary of discussions from the stakeholder event that we held on 5 December. Happy to note the paper? Okay.

**Ymchwiliad i Oruchwyliaeth Reoleiddiol ar Gymdeithasau Tai—Sesiwn
Dystiolaeth 3
Inquiry into Regulatory Oversight of Housing Associations—Evidence
Session 3**

[3] **Nick Ramsay:** Okay. Item 3. We are continuing our inquiry into the regulatory oversight of housing associations, and this is our evidence session 3. It's very good to have our witnesses with us today. Would you like to state your name, position and organisation for our Record of Proceedings?

[4] **Mr Ropke:** Yes, no problem. I'm Stuart Ropke. I'm chief executive of Community Housing Cymru.

[5] **Ms Corbisiero–Peters:** I'm Clarissa Corbisiero–Peters. I'm the director of policy at Community Housing Cymru.

[6] **Nick Ramsay:** Great. Thank you for agreeing to be with us today; it's really helpful to our deliberations. We've got a number of questions for you. If, at any point, I'm moving things on, it's just because we've got quite a few questions. So, depending on time and areas of interest, we'll get through as many as possible. Can I kick off by asking you whether you think that the Welsh Government's regulation of housing associations is effective, and does it focus enough on outcomes for tenants?

[7] **Ms Corbisiero–Peters:** I think that the regulatory regime has actually been on a bit of a journey since the Essex review in 2008. As this committee will surely be aware, there was a new regulatory framework put in place at the beginning of this year. For me, certainly, that focuses on the right things. It focuses on governance, financial viability and tenant services. There's a real clarity, I think, in the new framework and the new approach. I think it also brings greater accessibility. So, alongside the self-assessment and the regulatory judgments, you will also have things like a compliance statement, and you'll have co-regulatory status levels. That's much crisper and much clearer, I think, for housing associations and stakeholders, tenants and lenders. In terms of whether it effects on outcomes for tenants, the new framework maintains that focus on outcomes for tenants. It's within the regulatory judgment factors that tenants are involved and that there are high-quality and increasingly excellent tenant services. So, I think it's absolutely key that that's retained. But actually, what's also really important is this increased focus on governance. Actually, it's very rare that you get

fantastic tenant services and outcomes for tenants if the governance of the organisation isn't good. I think that that focus on governance is absolutely right.

[8] **Mr Ropke:** I think for me, in Wales, tenants certainly are a very, very important part of the regulatory regime. That's actually, I think, in contrast to other parts of the UK. It has been retained in Wales. I think that's a very positive thing. I do think it is important to remember, though, that while tenants are an absolutely key stakeholder here—this is their homes we're talking about and it's right that they should be assured of the performance of their landlord and that their services are good—there are a wide range of stakeholders of the regulatory regime. Organisations themselves—housing associations—are a key consumer, actually, of the regulatory regime. Yes, of course, it's about checking performance and ensuring that public money has been invested appropriately and the rest of it, but good regulation can actually add value to the organisations being regulated, and can help improve performance. That's key. Lenders—and I know you've got evidence later from the lenders—are an absolutely key audience for regulation, as well as tenants. They need to be assured that the money that they're investing—and it is a huge amount of money; we have £2.3 billion of private investment in housing associations in Wales—is safe and well invested. They are a key stakeholder. Equally, I think local authorities are another key audience and stakeholder here as well. We have a number of stock transfer organisations you'll be aware of. The local authorities clearly want to be assured of their performance. But, equally, traditional housing associations are operating across Wales in different local authorities, working closely with local authority partners, so it's key that local government have confidence in the regulatory regime as well.

[9] **Nick Ramsay:** Is the regulation transparent, in your view?

[10] **Mr Ropke:** In my experience in Wales, I think great steps have been taken to open up regulation. I think particularly the regulatory advisory group, which contains a wide range of stakeholders, including tenants around that table, has the opportunity to comment on policy. Increasingly, organisations—housing associations—have been making huge efforts to make regulation far more accessible to their tenants in terms of informing them about the regulatory regime, informing them of judgments and giving them an opportunity to feed into the way they deliver their services. So, in my view, overall, as Clarissa said, it's a journey. But I think huge steps have been taken to improve the transparency.

[11] **Nick Ramsay:** Do you think that recent regulatory interventions have been timely, or simply responding to a crisis situation after the horse has bolted?

[12] **Mr Ropke:** I think the regulatory interventions that we see that get the most attention and publicity are inevitably those where significant action has to be taken, and we've seen a number of those. It's very difficult, I think, for us—for me—to judge whether that intervention was timely or not. We're not involved in the direct operation of those housing associations. We see the regulator go in, but we're not, obviously, privy to what's gone on previously. But what I would say is that I'm aware of a number of interventions from the regulator that probably haven't reached public attention as well that have dealt with and nipped problems in the bud. That to me suggests a regulatory regime that is and has the ability to respond appropriately.

[13] I think I'd also point to the fact that we have a no failure—a no default—record in Wales. That's absolutely key, and that again, to me, would be an indicator that the regulation is generally doing its job. Any default in the sector—any failure in the sector—wouldn't just be bad news for the tenants of that particular organisation. It would be bad news for the whole of the housing association sector, because it would mean that our lenders and our investors would take a renewed view and really would look at the sector, and that could result in increased borrowing costs.

[14] **Nick Ramsay:** You've just anticipated my next question, which was going to be: if there's a failure in a housing association, what effect does that have across the board, and particularly on borrowing?

[15] **Mr Ropke:** We're in a lucky position where we haven't had any of those failures having that direct impact. But the lenders tell us, and experience suggests, that if there was a failure in the sector at any time, the whole of the sector would pay with an increased risk premium on the significant amount of private lending that is in the sector. That would add huge costs over the life of a business plan, would make the delivery and building of more homes more expensive, and would actually mean that the value for money that the sector is able to generate and deliver wouldn't be where it is now. So, that's why it's vitally important that we have an effective regulatory system that spots risks as they arise and intervenes appropriately.

[16] **Nick Ramsay:** Are there any areas where it's too heavy-handed, where

the Welsh Government, you would think, might have too much control?

[17] **Ms Corbisiero-Peters:** I think the Office for National Statistics has identified a number of areas. The ONS has reclassified housing associations into the public sector for accounting purposes; they've identified a number of areas where they've deemed there's excessive public sector control. It's important to rectify that because, as Stuart said, with housing associations, the business model means they are able to attract a significant amount of private finance to be able to blend with the public finance they receive to build new homes. So, there are a number of areas, including consent powers, powers over disposals and powers over constitutional changes, as well as the appointment of officers and managers, that have been identified as a step too far by the Office for National Statistics.

[18] **Nick Ramsay:** Lots of interest has been generated now with that question. First of all, Rhianon Passmore.

[19] **Rhianon Passmore:** Thank you, Chair. With regard to precedent, in England there is a lot of noise around diversification in terms of private finance in terms of that portfolio. In Wales, do you fear that we are in any danger of diversification to such an extent that we lose our reason for being in the first place?

[20] **Mr Ropke:** I think housing associations in Wales have kept their focus. Actually, the evidence we see through the continued building and delivery of social rented homes demonstrates what the core purpose of housing associations is, and that's to house some of the most vulnerable in society. So, that is at the core of housing association businesses, and will remain so. There is some diversification in Wales across the sector. I don't think that's something that we should be scared of. Why is there diversification? Well, quite simply, we've got a very diverse housing association sector in Wales: 33 housing associations of scale, each with different characters, each with different specialisms, and they all have their individual view of what their purpose and their mission is. As I say, at the heart of all those mission statements and core purposes will be the housing of vulnerable people. But as housing needs have really deepened and widened across communities in Wales, some have chosen that part of their mission is to deal with housing need across the spectrum in their community, and that means perhaps some diversifications in terms of the homes they build. Equally, it's not just about housing; it could be about delivering care services, employment and skills training and other things. So we have seen diversification, but I don't think,

as I say, we should be scared of that. In fact, I think it's something to be welcomed, as long as the risks are managed. Why do I say that? Well, the reality is that the business environment is under pressure. Happily, in Wales, we have still seen substantial amounts of capital money invested in delivering social rented homes. I think that sets us apart, certainly from our neighbours across the border in England. I think that's to be welcomed. But, there are pressures on the revenue stream and there are overall pressures on public spending, and that diversification—the delivery of other services—helps to spread public money out further. At a time when, actually, it's going to be more difficult to collect rent from tenants as a whole, because they're under pressure from welfare reform, that diversification—the reinvestment of any surpluses from those activities into the business—means that we can keep housing people where income streams might be stretched. I think it's something to be welcomed. Also, housing associations are delivering for their communities across a wide range of things.

[21] **Rhianon Passmore:** You've mentioned welfare reform, and part of what I wanted to ask, really, was around the mechanisms for dealing with local authorities that have a statutory responsibility for homelessness, and obviously, in terms of eviction, a responsibility in some part as well in terms of rehousing. How do you feel, then, that in Wales we will keep that focus, bearing in mind recent announcements around housing and affordable housing? How are we going to maintain that focus, moving forward?

[22] **Ms Corbisiero-Peters:** Certainly, housing associations are working closely with their local authority partners. We're also doing so at a representative body level; we're working very closely with the Welsh Local Government Association and Welsh Government, for example, to think about how we can co-operate more fully to support local authorities in their homelessness duties and to implement the new legislation.

[23] As Stuart said, I think at the core of housing associations' social purpose is protecting and housing the most vulnerable in our society, and that will be maintained—

[24] **Rhianon Passmore:** How will that be maintained, sorry?

[25] **Ms Corbisiero-Peters:** Well, it's absolutely at the core of their social purpose, so, at the centre of their business planning and their risk modelling, as Stuart said, will be, 'How do we make sure that we manage risk appropriately, so that we remain as custodians of the social housing asset

within our communities?’ Where diversification happens, one of the key questions is, ‘What happens to the revenue that’s generated from that?’ Well, housing associations built 5,000 homes without any grant at all, so it’s about ploughing that money back into the social purpose to support that social purpose and ensure that the sector remains sustainable over the long term.

[26] **Rhianon Passmore:** So, how do we control that, then? I hear what you’re saying, but what mechanism is there that perhaps needs to be focused upon in terms of keeping that at the centre? I know it is now, but in terms of the increasing pressures and in terms of precedent.

[27] **Mr Ropke:** I think it’s mainly for the boards of housing associations, primarily, to be the guardians of the mission and purpose of their organisations. That, for me, is a key part of the board’s role—they own that mission and that purpose. So, that’s No.1. Clearly, the regulator has a role in seeing that the association is delivering on what it has said it’s done.

[28] In terms of homelessness, evictions and making sure it’s still the core purpose, it’s true, welfare reform is putting pressure on many housing associations in terms of housing people who are dependent on benefits. The housing element of support is being squeezed. The key is working with those tenants, putting in work, working with partners, to ensure that they can still be housed. What we’ve seen is housing associations investing heavily in financial advice, in welfare benefits advice, to enable them to continue doing that. It’s something our own organisation did a couple of years ago, at the advent, the start, of the reform process, when we went off and employed six money advisers. We’ve now withdrawn from that, because the sector we represent has stepped up and is delivering its own services to tenants to do that, so we can start on that journey. So, there are a number of things that can be done. I’m encouraged; we’re working very closely with the Welsh Local Government Association, co-operating around homelessness. It is part of the core purpose. And, back to the diversification point, the more surplus we can generate from activities across the piece, the more we can reinvest in the core model, which is social purpose.

[29] There’s also an intrinsic link between the amount of capital investment that goes in and the rental level that we can charge. The less capital that’s available, the higher the rent has to be to make the development viable, so we have to get the balance right in Wales. I’m encouraged by the amount of capital investment that’s there, but, as I say, representing the sector, it’s absolutely still at the heart of the business and the core purpose of

organisations in Wales. And I see no sign whatsoever that boards, or indeed senior executives, are walking away from that in any which way.

[30] **Rhianon Passmore:** With regard to the Tenant Advisory Panel, Chair, now that that's going to cease, how do you feel that tenants are going to be adding their voice in terms of that regulatory process? Also, in terms of their role, which was more supportive, how do you feel—and I know it's a difficult question to ask—that that deficit is going to be addressed?

[31] **Ms Corbisiero-Peters:** I suppose, in terms of adding their role to the process at a local level, there's an absolutely huge amount of investment that goes into tenant participation and tenant involvement across housing associations in lots and lots of different ways. At the national level, actually, I understand from Tenant Participation Advisory Service Cymru that there'll be new arrangements put in place to make sure that they're retained as a tenant voice; that there will be a tenant representative on the regulatory advisory group—that's one of the key advisory groups to the regulatory board; but also that there will be a variety of mechanisms, user networks, social media, et cetera, to be able to engage tenants. I think that's to be welcomed.

14:15

[32] What we need is a mixed-market model, I think, to try and engage people in some of the processes, which, if we're honest, are not always the most exciting issues to get involved in in the world. But, actually, when we think about how you use existing mechanisms—your newsletters, your residents' forums—using every tool at your disposal to be able to talk to residents about what regulation means and why it's important, I hope that the new regulatory framework will help with that, because it will be really clear. You'll get a regulatory status level, so it'll be really clear for you to be able to explain to your tenants and involve your tenants in what that means in practice and what work you're doing with the regulator, going forward.

[33] **Nick Ramsay:** A couple of quick supplementaries, Mike Hedges.

[34] **Mike Hedges:** You talked about resilience, and some of us were paying a mortgage of over 15 per cent several years ago. We've had very low interest rates for far longer than I ever expected, and I hold my hand up: if you'd asked me nine years ago what I thought interest rates would be at the moment, I'd have said between 5 per cent and 7 per cent, and I think most other people would have been in agreement with me. They're at

phenomenally low levels. But not all borrowing is at a fixed rate, is it? Some is at a variable rate.

[35] What calculations has each housing association done on at what level of interest rate it gets to be a problem, and at what level of lack of income due to welfare reform or a tiny economy—whatever reason—at what level of loss of income it gets into a problem, and at what point those two cross over and it hits a problem? Because I can tell you now that if they hit a 100 per cent interest rate and a 100 per cent lack of money coming in, they're in serious trouble. At 50 per cent, they're also in serious trouble. Are they in trouble at 15 per cent or 10 per cent of both? I think that is the sort of resilience that is necessary. I may be wrong—I was last time—but if you ask me, in 10 years' time, I think interest rates will be substantially higher than they are now, back to the historical norm of between 5 per cent and 6 per cent. I got it wrong 10 years ago, and there's no reason I won't get it wrong now, but aren't housing associations planning what would happen if we went back up to the norm or if we went back up—we've had super-low interest rates—to super-high interest rates and everything eventually—

[36] **Nick Ramsay:** You don't have to give a judgment on whether you think he's going to get his prediction right this time.

[37] **Mr Ropke:** I think it's absolutely true to say that interest rates have been a lot lower than anybody ever anticipated across this period since 2008 and the financial crisis. There's no doubt about that. In terms of resilience, an absolutely key role for individual boards of each organisation is to stress test the business. If I'm sitting on the board of an organisation, and equally for board members of housing associations across Wales, I want to know what busts my business. What are the circumstances, based on the market I deliver in, the geography I deliver in and the profile of my borrowing, that will bust the business? A lot of borrowing is at a fixed rate, so a lot of housing associations have taken advantage of the lower rates and fixed a large percentage of their borrowing. Some of it—you're right—is still on variable rates. Each board knows, or should know, what will bust their business, so it's a matter of appropriate stress testing, and not just one thing—what 5 per cent or 6 per cent interest rates would mean—you have to test it in variable ways. So, what will the impact of welfare reform combined with 6 per cent interest rates mean? Boards are doing that, and I know the regulator has been working very hard, as well, to ensure that that's one of the tests that boards are applying. That's about effective governance and risk management, and that is happening.

[38] **Mike Hedges:** Are you confident that's being done properly?

[39] **Mr Ropke:** I'm absolutely confident from my conversations with board members across Wales, and with chief executives, that part of the boardroom discussions are looking at those risks appropriately and getting appropriate advice from both executives and outside, independent advice, which is an important part of what boards can get as well, so boards are fully aware of those discussions. It means different things for different associations because of the borrowing profile and because of the geography they are operating in. Welfare reform, actually—local housing allowance has a differential impact across Wales. Post-industrial areas in particular suffer badly from local housing allowance, so it means different things for different organisations, but I'm absolutely confident that boards are doing that as part of their analysis.

[40] **Nick Ramsay:** Neil McEvoy.

[41] **Neil McEvoy:** Thanks. Just following on from what Rhianon said, really, diversification—can you explain what you mean by diversification?

[42] **Mr Ropke:** Yes, I think—

[43] **Neil McEvoy:** Some examples.

[44] **Mr Ropke:** Absolutely. So, I think diversification in a housing association sense can mean a lot of things. As I say, so, if you take your core business as essentially the delivery of social rented homes, that's homes let at sub-market rents to those who generally can't meet their needs in the market and who are often quite vulnerable, because they're at the top of the waiting list. So, that's the core business. Diversification could be delivering other housing products: that could include shared ownership; it could include private rent in some instances; and it could include homes for sale. The purpose of doing that is to meet the housing needs across communities, which are very varied. We've seen the ability to access and meet your needs in the market become much more difficult for a wider range of people, and some associations see that as part of their purpose, but, equally, those activities then mean that money can be invested back into the core business, delivering homes without grant and keeping rents low. That's part of diversification.

[45] Other bits of diversification could include operation in the care sector, and some associations are doing that. It also includes delivering regeneration activities and also investment in tenants' skills and their ability to access the labour market, which is another part of diversification that many housing associations are doing. It's a wide range, in my view, of services that are there for the benefit of the community in which those organisations operate.

[46] **Neil McEvoy:** Just to focus on two aspects of that—the sale on the market of properties and retirement homes—are there policies on reserving these for local people at a sub-market rate, or is it purely market driven, so anybody can buy those properties?

[47] **Mr Ropke:** I think it varies across Wales. Some of those homes for sale are for sale as a private developer would do. The difference is that the private developer, of course, is distributing those profits to shareholders, or to the equity holders of that company if they're private, whereas in housing associations they're invested back in. In terms of intermediate rent, and market rent, there may well be policies around key workers and other local connections. So, again, the picture varies depending on the organisation. These are subsidiaries, but the key point to remember here is that profit is reinvested back into the core activity.

[48] **Neil McEvoy:** I understand that. So, it's possible that somebody on a low income in their area would like to buy, but effectively is priced out because the housing association is selling at a market rate.

[49] **Mr Ropke:** Some of those properties may be sold at the market rate. Not all housing associations are delivering homes for sale, but some are.

[50] **Neil McEvoy:** I'm just floating—

[51] **Mr Ropke:** It's about a range of products, I think. So, market sale is at one end and clearly that's meeting market needs. Below that, there are various options: shared ownership is an option; equity share is an option. Some housing associations are doing that, and they cater for low-income people.

[52] **Neil McEvoy:** I understand all that, but if you look at the ethos of housing associations, which I think most of us buy into, what is happening in some areas, as you describe, seems to fly in the face of what housing associations were set up for. So, there are situations where, through the sale

at market rates, local people, because nothing's reserved for them locally and the houses are not sold below market rate, local people are being priced out due to the actions of housing associations.

[53] **Ms Corbisiero-Peters:** I think it goes back to the core purpose of housing associations, as you say, so before—

[54] **Neil McEvoy:** With respect, we've outlined a scenario here that is happening, as has been confirmed. So, due to the activity and actions of housing associations, local people are being priced out of the market.

[55] **Ms Corbisiero-Peters:** I think before housing associations will undertake any kind of development, actually, there will be a full-scale analysis of the kind of demand and the kind of need in communities. As Stuart was saying, it's usually a mixed model, so we're not talking about one product at the expense of others. There will be a range of products that will be available.

[56] **Neil McEvoy:** Okay. In terms of the retirement homes issue, again, is there again kind of policy on catering for local people within a given area, or is it open to everybody?

[57] **Mr Ropke:** I don't think the extent of retirement home activity specifically is that big, actually—

[58] **Neil McEvoy:** But, it's there though, isn't it?

[59] **Mr Ropke:** On the fringes, I think. It depends again on the model. There are different models of retirement accommodation: there could be some for sale, there could be some for shared ownership. I think the key test that housing associations will apply to any activity, actually, is: by doing this activity, does it mean that we can do more of our core business, which is delivering social rented homes? If the answer is 'yes', my personal view is that that's a win-win for the community. You are getting more from that housing association than you would have otherwise by just the straight vanilla investment of public money from the Welsh Government.

[60] **Neil McEvoy:** So, if there's a home for sale and you're bringing in maybe more elderly people into a retirement property, then you're also loading onto that local authority needs, essentially—on the health service, on adult services, and so on.

[61] **Nick Ramsay:** [*Inaudible.*]—a question.

[62] **Mr Ropke:** Housing associations, the same as any other developer, if they're doing that activity, will look at the needs that have been identified by the local authority in that area. In my experience, and to my knowledge, you are meeting needs that are assessed by your local development plan—needs your local authority has identified. It's not just on spec because you think you can make, you know—

[63] **Neil McEvoy:** LDPs just stipulate a number of homes.

[64] **Mr Ropke:** I think there is a more sophisticated analysis, though, by local authorities of the type of homes that are required in any area. That's my understanding. So that's the way you operate with partners and stakeholders.

[65] **Neil McEvoy:** Okay. This is what concerns me, really. So, we've established so far that sale on the open market can, in fact, price local people out of the housing markets through the actions of housing associations; and secondly that, due to the mix of policies and the approach, what you may be doing to an area is actually bringing in people who will need—essentially, use up local services, which are scarce as it stands. That seems to be the case.

[66] **Mr Ropke:** I think that's a view that you've expressed, but I'm not sure I agreed with the view that we were pricing out—

[67] **Nick Ramsay:** Could you bring your questioning to a close, because there are other areas that we have to cover as well?

[68] **Neil McEvoy:** Of course people are priced out. If you're selling on the market and people locally are on a low income and they just can't quite afford the market price, what should be happening is that houses should be sold below market price to those people. That's my opinion.

[69] I just want to touch on a quote from, I think, it was your predecessor, who talked about 2 million people being on the housing waiting list in this country. I just wonder what he meant by that, really.

[70] **Mr Ropke:** There are not 2 million people on the housing waiting list in Wales; let's be clear about that. That sounds like a UK figure to me. We've

got a 3 million population, and there are not 2 million on a waiting list.

[71] **Neil McEvoy:** Is there a Wales–England approach with housing associations, or is it just Wales–specific?

[72] **Mr Ropke:** I've worked in England, so I've got experience of both jurisdictions in this regard. The approach in Wales that is taken by housing associations and by Welsh Government, who are responsible for the regulation of housing associations—which this committee's here for—is very, very different to the approach taken in England. The policy background is different, the policy environment is different, the regulation is carried out in a different way. Having come back to Wales from England within the last couple of years, it's two separate jurisdictions, there are two separate approaches; they are in no way the same.

[73] **Nick Ramsay:** And on that point, we really need to move on, Neil. You've asked the question several times in different ways.

[74] **Neil McEvoy:** Yes, okay.

[75] **Nick Ramsay:** And you'll have an opportunity later to ask some more questions. Mohammad Asghar.

[76] **Mohammad Asghar:** Thank you very much, Chair. What's very interesting here, Stuart, from Mike's question, that the interest rates are historically so low and, in the housing market, people are actually looking for houses. There's a very serious shortage in Wales. If the interest rates are so low and the money is cheap to buy, why can't you make more homes and affordable housing? If the interest rates go up tomorrow, it will be very difficult for you to raise funds or increases the number of houses.

[77] **Mr Ropke:** I think the evidence shows that housing associations are stretching their capacity to bring in as much lending as they can. We currently have £2.3 billion on the book already of private investment in Wales, with another just short of £600 million that can be drawn down by housing associations. And a lot of that £600 million that's been drawn down will be at historically low fixed rates, in many circumstances.

[78] **Ms Corbisiero–Peters:** I think also it's worth saying that CHC, the WLGA and Welsh Government recently signed a housing supply pact. In there was a commitment to deliver 12,500 homes over the Assembly period—a big

scaling up. Housing associations are keen to do as much as they can. As Stuart said, they're stretching their business plans, but we also just talked about risk management, and it's important here to remember that they're custodians of social assets, so that needs to be managed carefully. And that's the point of the stress testing and the risk management, alongside the Treasury management strategies, which help to implement some of that.

[79] **Mohammad Asghar:** The thing is, and now I'll come to my question, the Welsh Assembly Government has committed to adding 20,000 new homes in this term. Will the changes to the regulatory framework help to guarantee that the Welsh Government will reach its target, which it set itself? And the second is: will the creation of two public ratings systems actually lead to substantive improvements from underperforming landlords?

[80] **Ms Corbisiero-Peters:** I think housing associations are confident that they can play an important role in delivering the target. As I said, we committed to delivering 12,500 homes over the Assembly period, and we're keen to do even more than that and to work on other different models with Welsh Government as well. I think the regulatory framework does support housing associations to do that. It supports them by putting governance and financial viability at its centre, which focuses the mind on some of the many regulatory judgment factors, which are around ensuring you've got appropriate cash flow, ensuring you're aware of all the risks. That's actually a very supportive focus for the regulatory framework to help housing associations think about where they should develop and what tenure they should be developing in to meet local housing need.

14:30

[81] **Nick Ramsay:** Rhianon Passmore, do you have any questions on stakeholders?

[82] **Rhianon Passmore:** In regard to stakeholders—yes, in terms of where that responsibility lies, and you've mentioned the regulatory framework on numerous occasions so far. In terms of how we inform and make aware our tenants of those processes, do you see that as your responsibility or are you looking to Welsh Government? How do you see that split in responsibility, or is there a split?

[83] **Ms Corbisiero-Peters:** I think that all organisations that have links to tenants and have access to tenant audiences, which we do on occasion—

actually, housing associations are absolutely key here, alongside the tenant organisations—have a responsibility to do that, and that is happening in very many different ways. I was reading First Choice’s newsletter, actually, the other day, and they were talking about how they were using the tenant forum and their very recent tenant meeting to talk about the regulatory changes, and what that means in practice. Other housing associations use their websites and have performance zones and tenant zones to help share some of that performance information, and to share what that means in practice. But it’s definitely not a one-size-fits-all, and it’s definitely a challenge to engage people in what this means in practice, so that it actually feels like it means something in practice, and that it kinds of jumps off the page.

[84] **Rhianon Passmore:** In terms of accessibility, then, because, as you say, every area has a different focus but there are huge, huge similarities and parallels across Wales in terms of what the core business is in that regard—. So, in terms of accessibility in getting sometimes quite complex information across in a way that is engaging and getting a whole host of participation across different age groups, are we being as successful as we could be in that regard in terms of your role?

[85] **Mr Ropke:** In terms of our role, Clarissa said that we sometimes have access to those audiences, and that’s quite correct. Our housing association members on occasion will use our conferences and send tenants to our conferences where, clearly, they receive information. Equally, for our part, none of our briefings or information, which will include stuff about the regulation framework, is behind a firewall—it’s all publicly available. So, anybody can access that.

[86] Clearly, a major part of this is the housing associations’ role—how do you hit those that generally might not be engaged? I think we’re seeing some innovation across the sector in terms of hitting those who might not have traditionally got involved in these type of activities, including young people, families and others. So, we’re seeing things like fun days where we’re bringing communities together, doing activities, but actually, on the side of it, you’re able to inform about the activities that the landlord is undertaking, and about the stuff that Welsh Government are doing in terms of regulation. So, it’s about being innovative and using a number of different ways. I think for a long time tenant participation relied on the same type of mechanisms—people who stepped forward and who were willing to attend committee meetings and attend meetings, but experience has told us that that isn’t the way forward, and we’re seeing huge amounts of innovation in this area.

[87] **Nick Ramsay:** Neil McEvoy.

[88] **Neil McEvoy:** Yes, a different angle—. Before I say anything more, do you want to—?

[89] **Neil Hamilton:** No, no, I'll come in after you.

[90] **Neil McEvoy:** Okay. Just looking at properties for rent, are there any rules on housing associations renting from offshore companies?

[91] **Mr Ropke:** Housing associations are constituted as companies. Many are subject to charitable rules—they're charities—but as long as the activity is within that permitted by law within their charitable objectives, within their mission, and obviously is subject to regulatory oversight, I'm not aware of any rules that would prevent that.

[92] **Neil McEvoy:** Okay. So, you're aware that overseas companies do rent to housing associations in Wales—Link Holdings, for example, based in Gibraltar. So, given that lots of funding of housing associations comes from the public sector, there seems to be a hell of a lot of public sector money just flowing out of Wales into Gibraltar, where the tax arrangements are preferential, I'm told.

[93] **Mr Ropke:** I'm not aware of that case of that particular company, so I can't really comment on it, I'm afraid.

[94] **Neil McEvoy:** Okay. So, there are no regulations. So, if tenants were a bit upset about that happening and maybe chief executive officers' salaries being a bit excessive, how can tenants influence the housing association?

[95] **Mr Ropke:** I think tenants have every right to ask questions about it as organisations are accountable to those. In terms of—. We talk about chief executives' salaries and other things—salaries are set within associations by, generally, remuneration committees that are part of the board. Often in Wales they include tenants on them. Clearly, all associations have an annual general meeting where questions can be asked and raised. So, there are avenues to raise those questions. Again, I can't comment on the example you've given. I'm not aware of that one at all.

[96] **Nick Ramsay:** If you don't have the information on that, you don't have

to answer that question.

[97] **Neil McEvoy:** Okay. So, generally, my message to tenants would be to go to the AGM, and if they're unhappy with the salaries maybe put a motion to the AGM to cut the salary.

[98] **Mr Ropke:** Well, the AGM is one vehicle, but salaries are set, as I said, by remuneration committees as part of boards. They are set after a consideration of market factors and after looking at the skill set of the job. That is information that is in the public domain. It's published in the accounts of housing associations. It's also pretty freely available on the internet as well, because the trade press does a regular survey of salaries, and I'm aware that, obviously, the committee has been given a list of some of the bigger salaries in Wales. What I would say is that that list doesn't include the whole totality of salaries in Wales. We've got a very diverse sector. You can focus on the top 10, and actually, if you look at the range of salaries, we see a big range—and that's probably absolutely right—between very big organisations and smaller organisations. My view is that the processes that all associations go through are robust and appropriate to set senior salaries.

[99] **Nick Ramsay:** In terms of the broader point that Neil McEvoy made about how stakeholders can be engaged with you, do you think the systems in place are about right at the moment? I know you mentioned the annual general meeting, but are tenants themselves aware of how they can get in touch if they need to on a particular issue?

[100] **Mr Ropke:** I think all associations make huge efforts to inform tenants of how they can get involved, not just at AGMs, actually, but whether that's through tenant forums, whether it's through scrutiny panels, or whether it's through the examples that we gave to a previous question like fun days. There are a lots of examples and ways that tenants can get involved with those organisations. It's for individual organisations to make sure their tenants know. My experience in the sector is that they're making huge efforts to do so.

[101] **Ms Corbisiero-Peters:** And I think that one of the most interesting ways that housing associations do that is to involve tenants in the design and the delivery of the services themselves. So, there are many housing associations in Wales using tenant service testers, to be able to test out some of those services, provide feedback and drive change as a result, and actually involving tenants meaningfully in the delivery of those services, making sure

that they continually improve, is an important part of this as well.

[102] **Nick Ramsay:** Thanks. Neil Hamilton.

[103] **Neil Hamilton:** You've been pretty sanguine about the effectiveness of the sector in identifying risks, both local and throughout the wider economy. The property market has been a rollercoaster ride in my lifetime. I've lived through three property bubbles, and getting in and out at the right time has been key to staying in business. There is a great difference between a housing association and a commercial property company, and the kind of attitude and mind required from the people running the two different kinds of companies needs to be different. We've seen this in other respects, with the demutualisation of building societies, for example, where, suddenly, people who'd spent their whole lives in what you might call a public sector kind of business decided they were hotshot businessmen and fell flat on their face, with disastrous consequences. I'm wondering whether the move towards further diversification in the area of housing associations indicates that perhaps people running these organisations haven't learned very much from what happened in the first decade of this century.

[104] **Mr Ropke:** I think you're quite right to identify the risks that are there in the property market, and anybody who diversifies their business I think goes into it with their eyes wide open, and looks to manage those risks. And, again, the regulator has a key role to play here as well, in ensuring that the organisation has done that appropriately. But how do you mitigate some of that? Well, you have to know your market; you're quite right. You have to do it at the right scale for that organisation, and make savvy investment decisions. Some of those skills you may well need to bring in from outside of the association and from your traditional recruiting base, to ensure that you're able to manage those risks. But my view remains that diversification, well managed, can help public money stretch further in Wales, can enable housing associations to do more, and benefit communities as a whole across Wales.

[105] **Neil Hamilton:** So long as the main focus of the business doesn't change.

[106] **Mr Ropke:** Absolutely. And I think—

[107] **Neil Hamilton:** So, this is a secondary and subordinate element, rather than something that is going to be the principal driver of their activities.

[108] **Mr Ropke:** I would absolutely agree with that. And as we look across Wales, and look at those organisations that are diversifying, that is absolutely the case. We talked earlier about the fact that the core mission, the core purpose, remains the same as it ever was, meeting the housing needs, primarily, of those who are some of the most vulnerable in society. The other ancillary activities are to address other needs, and to help associations do more of that. So, I absolutely agree with you—it's about being secondary, but it can help with the core mission in what is a very difficult environment. What you have to be clear about, of course, is that those subsidiary activities can't bust the business, and that public money is protected.

[109] **Neil Hamilton:** You said earlier on that there was widespread stress testing of that kind going on in housing associations, and this is something that you, personally, have seen—this is an inquiry that you make of all those who are under your supervision.

[110] **Mr Ropke:** We haven't got a regulatory role, clearly. We are a representative body, but I speak to a number of board members, I go to a number of housing association boards, and present to them on occasion. One of the questions that we pose at our conferences on a regular basis that are aimed at board members is around stress testing. It has been a key theme that's been running through the development of the sector in Wales across the last couple of years, and will continue to be so. And, equally, I know that the regulator has had a focus on checking whether boards are stress testing appropriately. And, as I say, if I'm a board member—if I'm a board member of any organisation, I know I've got a legal and fiduciary duty, I want to know what busts my business and in what circumstances. I think that's an absolutely fundamental question for every board member to understand.

[111] **Neil Hamilton:** We have been living, as Mike pointed out, in a particularly, unprecedentedly, benign environment, from the point of view of building finance, for the last 10 years. There will come a time—perhaps sooner rather than later—when quantitative easing will have to be unwound, and, in fact, this has already begun in the United States; the Federal Reserve has begun the move up the hill in interest-rate terms. Again, the European Central Bank is going the other way. But, clearly, it is now time for us to think in terms of the business environment becoming more difficult. And so are your stress tests now going to become more rigorous, and your view of the future more conservative?

[112] **Mr Ropke:** I think they have to. The reality is that a proportion—a significant proportion—of housing association finance is linked to sovereign gilt yields, and we know that they've started to move off the bottom already. So, that needs to be taken into account. But I think it's also true to say that housing associations, like other businesses, have been taking advantage of the low interest rate environment and securing fixed-rate lending facilities that they are still able to draw on. So, clearly, going forward, it does change the strategy and needs to be borne in mind. And any appropriate stress testing of the business does take those interest-rate assumptions and variability absolutely into account—it has to be central to it.

[113] **Ms Corbisiero-Peters:** And, crucially, it has to feed through to the treasury management strategy, then, of the organisation, as well, and we are seeing that link up between the two. So, I think it's incredibly important to stress test, to stress test to destruction, and to find out what breaks your business, but then to recovery plan, and to think about what actually you can do to mitigate, and what you would do in those circumstances.

[114] **Neil Hamilton:** Given that the boards of housing associations are very different from the boards of commercial enterprises—lots of volunteers, whereas there are none, usually, in commercial businesses—and I have been involved with commercial businesses, obviously, where there are non-executive directors who've been appointed, as Tiny Rowland once memorably described them, as Christmas tree decorations—not capable of performing the role that a non-executive director, in law, ought to do. And I'm wondering whether you're satisfied that, given the nature, inevitable nature, of the more amateur, if I can put that not in a disrespectful way, of those on the boards of housing associations, they're capable of managing this qualitative transition from somebody who is focused 100 per cent on the provision of social housing to an organisation that now looks to a more commercial future, even though it may just be a secondary rather than the primary focus of the business.

[115] **Ms Corbisiero-Peters:** Governance across the sector is good and is based on—it's only skills based, primarily. So, as the organisation changed—and, as Stuart said, it will only ever be a small part of the business; it will never be the kind of core function of the business—then, actually, the skills that you might need to bring onto your board might evolve with it. And having the flexibility to be able to respond to that, I think, is really important; we're seeing housing associations doing that. Equally, within the regulator as

well, we need to make sure that we've got the right skills in the regulatory team to respond to the changing environment that housing associations are working in.

[116] **Neil Hamilton:** In this respect as well, are you satisfied, do you have views—are you prepared to share them with us—on the Welsh Government's regulation team, whether that has the capacity or the skills needed to regulate a sector that has become increasingly diverse?

[117] **Mr Ropke:** I think Clarissa talked about the journey that the regulator had been on since the Essex review in 2008. And I think it's fair to say that the operating environment for housing associations has changed in that period, but, equally, that the approach that the regulatory team is taking has changed—you know, awareness of what good governance looks like, whether an organisation has capacity to improve in the new regulatory framework, whether an organisation is financially viable. That takes certain skills.

14:45

[118] I do think there is a question about do we have sufficient of those skills within the regulatory team currently. I think that's a valid question to ask. I've been encouraged recently by the fact that the regulatory team has gone outside the civil service and brought some of those skills into the team. So, it's something that needs to be looked at and kept under review. It is a specialist job. As the environment becomes more complex, different skills are needed. For me, it's something that Welsh Government need to keep under constant review—have we got the right skills to do the job that's required of us.

[119] **Nick Ramsay:** I just want to bring in Mike Hedges just briefly with a supplementary question.

[120] **Mike Hedges:** Just following on from what Neil Hamilton was saying, if you come back to a housing association—. If you go back 40 years, housing associations were basically relatively small, local organisations, run by local people, not that different to the starting off, the beginning, the way that lots of organisations started—small, local. Now, you've got a huge geographical spread as well. I mean, what is Pobl, from Newport to—? I don't think it goes into Pembrokeshire, but it certainly goes into Carmarthenshire, which is a very large organisation. You've seen this growth and joining together of housing associations, and also you've seen a number of former council

housing stocks becoming housing association. So, you've seen these two big changes that have taken place. The level of skills to be a board member of the old, small, couple of hundred houses that were mainly in the same area, where you would—. I would suggest it's highly different to now, when you take—. I don't know how many houses Pobl have got—I have been told, but I've managed to forget—but it's certainly a very large number. I'm thinking of Newport City Homes as well—it was a stock transfer, but huge numbers of houses. So, there's been a big difference in that. Have housing associations successfully changed with this change in their size and complexity?

[121] **Ms Corbisiero-Peters:** I think the delivery record does suggest that they have changed and they have evolved to meet the change in circumstances and the change in scale of the sector—so, continuing to over-deliver on Welsh Government targets around house building; £1 billion of investment last year, £2 billion in indirect economic investment. The story continues. Actually, it's a very positive success story, but you're right that the skills required are evolving. I think that's why at the heart of good governance discussions is a continual challenge: have we got the right people around the table to be able to continue to both protect the assets that we've currently got but also to lead the organisation into the future? So, it is a continual challenge. Housing associations aren't complacent around that and they are continuing to think about what skills they need and what mix they need.

[122] **Mr Ropke:** It has been, of course, circumstances that have driven that rapid change to a large degree. Particularly, the fiscal restrictions around the ability of local government and others to borrow has meant that housing associations have successfully stepped into the gap and built homes that previously might have been delivered by local authorities. That's an absolute fact. The stock transfer programme in itself was a response to the ability of local authorities, or not, to invest in their housing stock. So, if you look at those changing circumstances, this is a story of a very, very successful sector that has stepped up and delivered affordable homes. It has meant, obviously, developing the business model, and changing skills alongside it.

[123] **Nick Ramsay:** This is a very different beast, the new housing association, as Mike said, compared to the past. Are we in danger of losing—I think this was at the core of Mike's question—the local aspect of it?

[124] **Ms Corbisiero-Peters:** We've got quite a diverse sector, actually. We have a real range, from the very small, community-based associations, right

through to larger associations. Actually, I don't think I would subscribe to the argument that a larger association means that you lose that connection with the local area. The assets are fixed, the services need to be delivered in those local areas, and the engagement with the tenant continues. Certainly, I haven't seen any compelling evidence that would persuade me that a greater scale of organisation means that you would lose that local focus.

[125] **Mike Hedges:** But you can lose local contracts. If you've got 200 houses in an area, when you let the contracts for maintenance of those houses, they tend to be let to smaller organisations. When you're doing it for 8,000 or 9,000, it tends to be let to larger organisations.

[126] **Mr Ropke:** I think if we look at the evidence of what housing associations spend in Wales, and they spend directly over £1 billion a year, one of the statistics I'm most proud of when I look at the performance of the sector that I represent is that 89p in every £1 that we spend is spent within Wales. So, that is money that's kept within the Welsh economy. So, that suggests to me that there is still a local focus there.

[127] **Mike Hedges:** Sorry, there's a difference between being kept in—. I represent Swansea; there's a difference between being kept within Wales—. Many of my constituents want it to be kept within Swansea or West Glamorgan, rather than be kept within Wales, and they don't want to help the economy of other parts of Wales, for example.

[128] **Mr Ropke:** My experience is that housing associations use a wide range of local contractors, varying sizes, but, clearly, need to make decisions that deliver for the communities they're serving but that deliver best value and value for money as well.

[129] **Nick Ramsay:** Right. Neil Hamilton, do you have any more questions?

[130] **Neil Hamilton:** Not really, except that I am interested in this question of diversification and the extent to which this leads to greater debt on the books of housing associations, and the range of diversification is quite—I was wholly unaware of this until we started this inquiry. Some housing associations are moving into providing student accommodation and accommodation for nurses, others, amazingly, are even moving into the commercial property area, and Linc Cymru apparently has been part of the St David's redevelopment here in Cardiff. Living Quarters (Sales & Lettings) Wales Limited is a wholly-owned subsidiary of Cadarn Housing Group and

it's a company limited by shares and they have been involved in property development for rent at market rates and sales at market rates. It's not registered with the Welsh Government as a social landlord. It seems to me that this is a sector that is moving rapidly in a direction that nobody would have predicted a short time ago, and whether you are adequately—how shall I say—whether you are sufficiently concerned about this development in order to protect the core values and activities of the sector.

[131] **Mr Ropke:** The activities you refer to would most often—in fact, exclusively—be delivered through subsidiary businesses. It's not part of the main part of the business, which is about the social housing. The way that things would work is that any surplus generated for those businesses would be then reinvested back into the core business. It's a question of scale, which we've talked about previously, and managing that scale appropriately. But, as I say, I think the diversification actually is a positive: we are meeting greater housing needs than we would have previously. The housing crisis in Wales means that more homes are required. There are greater proportions of the population unable to meet their needs because there aren't enough homes, and, if housing associations are making a contribution to that, I think that's to be welcomed. Equally important is that surplus from those activities means we can stretch public money further. Over 5,000 homes in the last year [correction: since 2008] delivered without any capital investment from Welsh Government: that's a real achievement, I think. So, yes, you have to manage the risk. Yes, it has to be done appropriately. But I welcome diversification of the sector because that means we can do more for the people of Wales and invest more in communities. I think that's a real positive.

[132] **Neil Hamilton:** Well, that's a very robust response.

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

[134] **Rhianon Passmore:** Thank you. In the—[*Inaudible.*]*—*we've had the spectre of the withdrawal of quantitative easing and we've talked about dangers around universal credit and the concern and evidence of personal debt growing and the arrears that then transform into debt for that individual and not being able to pay their rent, and then we also look at our very low interest rates, as Mike Hedges has already articulated. We are looking at a huge set or a large set of risks for housing associations to manage. So, I suppose my question, really, is: looking at all of those different things as part of one suitcase, how would you articulate your role in being able to

strengthen ourselves moving forward in terms of what you need to be able to deliver for that most vulnerable cohort of people that we're here for?

[135] **Ms Corbisiero-Peters:** Certainly, I would see our role as improving the operating environment for housing associations. So, that's about mitigating some of those risks that you've just outlined. We've previously been doing some work on the local housing allowance around trying to safeguard funding coming in for supported housing—again, a big risk for that part of the sector—and we're pleased to see that there'll be top-up funding coming. So, there's a kind of advocacy and lobbying role identifying specific risks. Then, I think, if you look at things like our housing pact, which we signed with Welsh Government and WLGA, actually there's a big commitment there and a big offer from the sector—12,500 homes over the period. But, actually, what's also there is a set of commitments from Welsh Government around mitigating some of those risks for things like committing to the rent settlement—Stuart talked earlier about the balance between the capital investment and the revenue coming in—making sure that housing associations are reclassified off the balance sheet as quickly as possible. We talked previously about the importance and the risk of not doing that, which may, if not addressed—it completely changes the business model of the housing associations, but also puts in place a risk that borrowing will be controlled by Treasury in Westminster, rather than being a devolved matter in Wales. So, I think it's about trying to improve the operational environment that housing associations work in, as well as our role to support housing associations.

[136] **Mr Ropke:** I think one of the important things that was also in the pact was a commitment from the housing association sector to deliver a substantial number of apprenticeships across that period. Actually getting residents, tenants, back into work has become an increasing focus of associations across Wales, because, actually, the best way you manage some of these risks for tenants as much as organisations is getting them into the labour market. That's the way to get out of poverty and tackle poverty in my view and we're seeing lots of good examples. I was pleased to see at Bron Afon at the weekend—they were saying that 120 tenants had been helped into employment by the work they'd been doing. So, that's part of it. In the past, Community Housing Cymru ran a national Your Benefits are Changing campaign, which helped to raise awareness of the changes that are coming down the track. At that stage, as I mentioned previously, we employed a number of money advisers directly. We've now stepped away from that as the sector has been employing their own services and developing their own

specialist services in-house. So, it's an area where a tremendous amount of work is being done.

[137] **Rhianon Passmore:** Do you feel that you are well placed to be able to oversee those risks?

[138] **Ms Corbisiero-Peters:** I think the assessment of risk is actually most appropriately done by individual organisations and by individual boards. So, I think we wouldn't seek to get involved in that, although we play a supportive role. But our role, I think, where we can really add value, is looking at those collective risks that impact on either the sector as a whole—things like reclassification, which we've talked about—or particular segments of the sector, for example supported housing, and where we can use the strength of the sector and the voice of the sector as a whole to be able to achieve change and to propose amendments and policy suggestions that might improve the situation for the people that the housing associations serve.

[139] **Nick Ramsay:** Mohommad Asghar.

[140] **Mohammad Asghar:** Thanks, Chair. Given the numerous risks housing associations face and the requirement on occasions for the Welsh Government to intervene, how has the Welsh Government prepared itself to intervene effectively if necessary in Wales?

[141] **Ms Corbisiero-Peters:** I'm sorry, I missed the last bit.

[142] **Mohammad Asghar:** I'll read again. Given the numerous risks housing associations face and the requirement on occasions for the Welsh Government to intervene, how has the Welsh Government prepared itself to intervene effectively if necessary?

[143] **Ms Corbisiero-Peters:** I mean, certainly, I do think—I know I've talked a bit about the new regulatory framework—but I do think the new regulatory framework is at the core of that here. I think, at its heart, governance—strong governance—strong financial viability and the regulatory judgment factors within that are absolutely the business breakers of an organisation. So that, accompanied by the co-regulatory approach, which continues in the new framework—that ongoing engagement between housing associations and the regulator—I think should provide the regulator with the information it needs alongside the formal provision of data, self-evaluation and compliance statements and such.

[144] **Mohammad Asghar:** This last bit, Chair, is: how can we more effectively utilise public feedback in order to evaluate the performance of housing associations here in Wales?

[145] **Ms Corbisiero-Peters:** I think at a local level housing associations are doing that. I know Coastal, for example, very recently did an analysis of the kind of calls they get through their customer help desk and made some changes to the way that information was available to tenants—around how much rent they owed, for example. So, I think, at a local level, there are things that we can learn from that, through that analysis. But, actually, I think we talked earlier about the role of tenants at a national level in informing and influencing the regulatory framework and I think getting that right is absolutely core. We're really, really pleased to see that there's a standing spot for tenants in the regulatory advisory group, but that does need to be supplemented with other ways of reaching out, and we're really pleased to see TPAS Cymru are taking a lead on that.

[146] **Nick Ramsay:** Neil McEvoy.

[147] **Neil McEvoy:** Thanks. You said about the subsidiary businesses being a positive thing. How's it positive to use the market to allocate housing?

[148] **Mr Ropke:** This isn't about using the market to allocate housing. This is about using the market to produce a product, whether that be housing or other things, that produces surpluses that are reinvested back into the core business, which means that more social homes, essentially, are delivered. It boosts the core business alongside public investment. That's why it's a positive, because it means we can do more with less public money. Activities for profit done within subsidiaries—which might be around housing, might be around other things—create jobs, create investment in communities and, if profits are reinvested back into the core business, which they have to be and they are, that means that more is produced at the other end. That's why it's a positive, in my view.

[149] **Neil McEvoy:** Okay, so—. Though any kind of control on a local area, on the price or on who can obtain the house—the highest bidder, basically—. You see that as a positive. I just find that surprising, really.

15:00

[150] **Mr Ropke:** Housing associations are subject to the same controls as anyone else. Ultimately, the permission for homes, in this case, to be built lies with the local authority.

[151] **Neil McEvoy:** What is the purpose of housing associations? Isn't it to house people who are unable to buy houses on the market?

[152] **Mr Ropke:** Absolutely. That's the core purpose of it, but it's not necessarily the only purpose of organisations. These are independent organisations that set their mission and their purpose. All of them in Wales—this is something to be welcomed—will say, 'Our core business is to provide housing for those who are often the most vulnerable in society'. Some beyond that will say, 'A secondary part of our role is to deliver homes within communities for people who need homes'. For me, as independent organisations, they have every right to do that. If it means we get more homes delivered for those in need, it has to be a positive.

[153] **Neil McEvoy:** Is any consideration given to linguistic issues, in terms of the balance of tenants who are housed in localities?

[154] **Mr Ropke:** In terms of those who are at the top of a waiting list for allocation of homes, local connections sometimes play a part in that—

[155] **Neil McEvoy:** I mean Welsh-speaking areas, essentially. Is there an emphasis on placing Welsh-speaking people in those houses in Welsh-speaking communities?

[156] **Mr Ropke:** In my experience, housing associations are delivering homes for people from that local area. Very early on in my reintroduction or my re-assimilation into Wales after 10 years in England, I went up to the Llŷn peninsula and spoke to the housing association there—actually, you have them giving evidence later in your report stage here. Going around the Llŷn peninsula, looking at the homes that had been delivered and hearing from the local authorities in those areas, which said that those houses built by housing associations meant that for the first time there were Welsh speakers back in that village for a long time, suggests to me that the experience is that they are doing that.

[157] **Neil McEvoy:** As long as they don't put them on the open market, because, of course, then anybody can buy them. In terms of tenants brought into areas, do tenants usually come across from England or are Welsh

housing associations only for people who live in Wales at the present time?

[158] **Ms Corbisiero-Peters:** The majority of housing associations have got nomination agreements with their local authority, so that the allocation or nomination process will be in partnership and decided with the local authority in that area. It is specifically a local issue.

[159] **Neil McEvoy:** Do they have partnership arrangements working with authorities in England, or is it only in Wales?

[160] **Ms Corbisiero-Peters:** Primarily in Wales.

[161] **Neil McEvoy:** One of my issues is that we should cater for local demand, because there's a lot of it. As you said, there is a housing crisis and we're failing, really, in the sector. So, you're aware of some housing associations that will work with English authorities.

[162] **Mr Ropke:** Not directly, no. Housing associations work in partnership with their local authorities where the homes are in Wales. There will sometimes be a common housing register and there will sometimes be a nominations agreement. It is the policies in place within the local authority area, by that local authority, that determine who is on that waiting list, who is eligible to go on that waiting list and who might be at the top of those waiting lists. That's the reality of the way things work. There are no specific agreements, as far as I'm aware, between housing associations in Wales and English local authorities.

[163] **Neil McEvoy:** Is there any kind of assessment of people who are housed—brought into a locality? I don't just mean from England, I mean from anywhere. Is there any kind of assessment of those people?

[164] **Mr Ropke:** Certainly, a housing association will look at who the local authority has nominated and generally take that on. If the local authority are holding the waiting list and they are nominating people to housing associations, I would expect the assessment to be done at the local authority level.

[165] **Neil McEvoy:** It may not be the fault of the—

[166] **Nick Ramsay:** I think we've been round and round this subject several times, Neil.

[167] **Neil McEvoy:** I was thinking more of the paedophile gang that were housed in Kidwelly. It probably isn't the housing association's fault, because the regulations probably lie elsewhere about the local community finding out about such people being housed in a locality.

[168] **Nick Ramsay:** I really think that we have exhausted this particular point. I am looking at the time as well, and we are into the last 30 seconds, so I'm wondering whether anybody has any final questions they'd like to pitch in. Rhianon Passmore.

[169] **Rhianon Passmore:** Are we well placed to be able to—? This is a slight repetition, in terms of my former questioning, but are we well placed in Wales to be able to tackle the risks that are coming in terms of the areas that we've already discussed? That's not in terms of your particular role, but in terms of your assessment of all of those who are involved in housing and homelessness.

[170] **Mr Ropke:** My assessment is that the housing association sector in Wales is robust, is resilient and is ensuring that it's got the right skills, both within its executive teams and, crucially, on its boards, to manage those risks going forward. I'm absolutely confident that we'll continue to do that.

[171] **Nick Ramsay:** On that positive note, this is the end of this particular evidence session. Can I thank our witnesses for being with us today? It's been really helpful. Before we finalise the transcript, we'll send it to you for you to check. Thank you for being with us.

[172] **Mr Ropke:** Thank you very much.

[173] **Ms Corbisiero-Peters:** Thank you very much.

[174] **Nick Ramsay:** We'll have a short break now until a quarter past—a tea break.

*Gohiriwyd y cyfarfod rhwng 15:05 a 15:16.
The meeting adjourned between 15:05 and 15:16.*

Ymchwiliad i Drefn Reoleiddio Cymdeithasau Tai: Sesiwn Dystiolaeth 4
Inquiry into Regulatory Oversight of Housing Associations: Evidence
Session 4

[175] **Nick Ramsay:** I welcome Members back to this afternoon's meeting of the Public Accounts Committee. Item 4 on our agenda is continuing our inquiry into the regulatory oversight of housing associations, and evidence session 4. Can I welcome our witnesses? Thank you so much for agreeing to be with us today; it's really helpful to us. Would you like to give your names and positions for the Record of Proceedings?

[176] **Mr Hughes:** Yes. I'm Peter Hughes. I'm the managing director of the commercial division at Principality Building Society.

[177] **John Marr:** And I'm John Marr, a senior policy adviser at the Council of Mortgage Lenders. We're the trade association that represents the interests of commercial funders to the housing association sector here in Wales, and elsewhere in the UK.

[178] **Nick Ramsay:** Great. As I say, thank you for being with us. We've got a number of questions for you. The first one's from me. From the perspective of lenders, how effective do you think the regulation of housing associations in Wales is?

[179] **Mr Marr:** Well, if I start on that one. I think where we are now, we can say quite confidently that regulation has achieved a good level of effectiveness. We're aware, obviously, that the regulatory framework has evolved and changed over the years since the Essex review. Its most recent changes, which are coming into effect just from this month with the new judgments framework, are actually very positive news for funders. We've been quite keen to see a move to judgments rather than narrative reports, and it's very encouraging that that has now happened. I think that new judgment framework, together with the performance standards that the Government's consulting on at the moment, will build on the strengths of the co-regulatory approach that's been in place for a number of years. As I say, they're welcome news to funders, and should be a positive force going forward.

[180] **Mr Hughes:** Just to add a local perspective, I've been involved with the society since 2002, and lending to the housing association sector. Looking at

the interface there is between the lending community and Welsh Government officials now, it's certainly light years away from where it was in 2002. There's a very active—. There's a regular quarterly liaison meeting between Welsh Government and the lending community. So, we have been on a journey through the Essex review. Locally, one of the challenges we have: we have a credit risk policy statement, which looks at our approach to the social housing sector, and one of the questions we ask is, 'What is the competence and confidence we have in the regulator?' Certainly, there's been a step change in that as we've gone through the years, so I would echo what John has said in terms of that it's certainly improving, and we're happy with where it is heading.

[181] **Nick Ramsay:** Two: do lenders have confidence in the Welsh Government's system for regulation of the housing association sector?

[182] **Mr Hughes:** I would say, yes, we do. The lending community has committed £2.3 billion of funding to the sector. That piece has never wavered, so even through the credit crunch, where credit became more challenged, it's fair to say that the lending sector in Wales was still able to access funding. So locally we were able to be part of the funders for both the Merthyr and Torfaen stock transfers, which came in a very, very challenging environment. That wouldn't have happened if there wasn't confidence in the regulator and the regulatory environment. So yes, it is a key part in the lending commitment to the sector.

[183] **Mr Marr:** I would certainly echo that. I mean, the extent of the private investment in the sector in Wales is testament to funders' confidence in the regulation that Welsh Government provides. So, it's in a good place and it's improving.

[184] **Nick Ramsay:** And openness and transparency—does it tick those boxes?

[185] **Mr Marr:** I think, increasingly, going forward it will do. The new judgments framework and performance standards will provide a more open and accessible report not only for funders, but for other audiences as well; tenants will clearly be interested to see how their landlords are performing. So, in that respect, I think the changes, which are just being brought in, will improve openness and transparency.

[186] **Nick Ramsay:** Do lenders have sufficient information—? Sorry—

Rhianon Passmore, did you just want to come in on a supplementary?

[187] **Rhianon Passmore:** No, I'll go after you.

[188] **Mike Hedges:** I'll go after Rhianon.

[189] **Nick Ramsay:** Okay. Do lenders have sufficient information about individual housing associations and the performance of the sector overall?

[190] **Mr Hughes:** I think absolutely. The view I would have, Chair, is that no lender would effectively look for the regulator to do its own job for them. So, the regulatory judgment is part of the process. It's a really important part of the process, and that supports the rates and a lot of other aspects. However, the onus is on the lender itself to be able to access the information it needs from the association, whether it's around the financials or the non-financials, and increasingly it's the non-financials—the governance. Lenders will place a big emphasis on that. I've never in my 15 years had a cause where we've not felt we've been able to receive the information that we needed to make our own lending assessment.

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

[192] **Rhianon Passmore:** I don't want to go into a different area too soon, but, in terms of confidence in the regulation of the system and in regard to the topic around ONS reclassification, how does that affect your perspective in terms of looking forward?

[193] **Mr Marr:** Clearly, ONS is an issue not only for Wales, but also in Scotland and Northern Ireland. It very much depends, I think, on what the Welsh Government's solution to that challenge will be. We've seen in England through the measures that were taken there through the Housing and Planning Act 2016 that those deregulatory measures were ones that funders were broadly comfortable with; they were able to get themselves comfortable with what was proposed there. So, if faced with the same situation in Wales, and the solution proposed by Welsh Government is broadly similar, then I think the outcome should be pretty much the same, in that funders, we hope, will be able to get themselves comfortable with whatever the new regulatory powers and framework in terms of the legislation are, going forward.

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

[195] **Mike Hedges:** Can I ask, traditionally, how long do you lend over to housing associations and how long are you prepared to lend in a fixed rate?

[196] **Mr Hughes:** That's a matter for individual lenders that have different policies and different levels of appetite. If you're personalising it to us, I'll come back to that in a moment. Generally speaking, what we've seen over the last, or, shall we say, since the credit crunch, is the banking sector—and I include, generally, building societies within that—looking to lend for somewhat shorter terms because the funding that they have from members and depositors tends to be shorter terms. So, typically, five to seven years would be the normal period where the banking sector provides funding. In terms of the ability for associations to borrow longer term, because clearly these are long-term businesses—investing in housing is a long-term decision—then the capital markets are able to provide very long-term money; 25 to 30 years, possibly even longer. To personalise that, you've asked the question to myself; our lending to the sector at the moment is a 10-year tenure, so we're prepared to commit funding for up to 10 years.

[197] **Mike Hedges:** Fixed for 10 years or variable for 10 years?

[198] **Mr Hughes:** Either. Clearly, as part of the credit assessment that we undertake, we need to ensure that associations appropriately manage interest rate risk. So, one of the conditions of the loan will be to ensure that we're satisfied with the association's hedging and fixing policy. Now, it might be that if an association already has a heavy incidence of fixed rate in their lending portfolio, then, for any new lending, it might be more appropriate that that is variable. But we will provide either, and I think that most lenders would have the same sort of approach—that lending would be on either a fixed or variable.

[199] **Mike Hedges:** I'll do resilience later, shall I?

[200] **Nick Ramsay:** Yes. Neil McEvoy.

[201] **Neil McEvoy:** Yes, touching on the Office for National Statistics position on housing associations being in the public sector, do you view that as a positive in terms of openness and transparency?

[202] **Mr Marr:** Well, I think, regardless of whether housing associations are classified as public or private for accounting purposes, they are fundamentally open and transparent at the moment. Through the tenant

engagement channels, there's a good flow, I think, of information from the landlords to the tenants about the services that are provided about the business that the landlord's running. The regulator's reports are available. So, I think they are quite open and transparent, either as public or as private bodies.

[203] **Neil McEvoy:** Right. If they were public, though, they would have to respond to freedom of information requests, wouldn't they?

[204] **Mr Marr:** I don't think that that decision has yet been taken or proposed for Welsh registered social landlords.

[205] **Neil McEvoy:** It's just that you say that they're open and transparent already, but if you look at Tai Cantref, there are a huge number of questions there with the takeover, or merger, and the fact that the report isn't available. So, I would disagree with the assertion that they're open and transparent. How does being open and transparent fit in with the refusal to publish a report on a merger?

[206] **Mr Marr:** Well, first of all, I can't comment on that particular case, but, looking more broadly on that point about openness and transparency, we would certainly look forward to the publication of the learning report from that particular case. We can't prejudge it. We don't know what it's going to say, but, certainly, when it's out in the open, it will contribute to the available information for all parties to learn from and more forward on.

[207] **Neil McEvoy:** So, it's 'if it's published', I suppose, because there is a culture of not being very open in this building.

[208] **Mr Hughes:** Can I just pick up on that?

[209] **Neil McEvoy:** Yes.

[210] **Mr Hughes:** Sorry, Chair, to interrupt. I think that the lending community are very eager to see that—equally eager to see the report. We have contributed to the lessons learned. John, my colleague, is quite right—we shouldn't prejudge what comes out of that. It's very important that those lessons are shared transparently so that we all learn from the events that took place there.

[211] **Neil McEvoy:** Do you think there could be, or should be, greater

interaction and greater information-sharing from associations to their tenants? Because I think the level of salaries that I tweeted the other week certainly caught a lot of tenants by surprise.

[212] **Mr Marr:** I think the point I made previously was that I think that the channels for sharing information between landlords and tenants are there. They're quite well established. There will be opportunities to improve them through innovative use, perhaps, of social media and things like that. On the point about salaries, again, that's not something that we can necessarily comment on in terms of individual cases or decisions, but, fundamentally, I think that point about remuneration levels of senior executives comes down to a matter for the board to decide, and from your perspective, and from the perspective of other stakeholders, tenants and the like. We'd be wanting to be reassured that the board was making the right decisions in the right way, reflecting the market circumstances—you know, perhaps reflecting issues about the availability through acquired skills and talents that they need, and how easy it is for them to attract them.

[213] **Neil McEvoy:** Yes. I don't think there's any need to go into the debate about the level of salaries, except that many people find them unacceptable, really. So, I think we probably disagree on that.

[214] **Nick Ramsay:** Okay. Mohammad Asghar.

[215] **Mohammad Asghar:** Thank you, Chair, and thank you, John and Peter. Regarding the effectiveness of governance, what form of housing associations are being particularly let down by the current quality of governance? How can our regulators adapt in order to better deal with the issues confronting these organisations in Wales?

15:30

[216] **Mr Marr:** I think, certainly, given that the sector in Wales is quite diverse, it's not unreasonable to expect that there will be different standards of governance. But broadly, I think—from our perspective and from what we see, and from what Peter was saying previously about the extent of investment into the sector—it's reasonably good. There are obviously areas where it could be improved, and the recent introduction of the Community Housing Cymru code will be a good impetus, a good way of supporting boards to improve their governance standards. Also, the work, obviously, of the regulator in assessing governance as part of its assessments is quite

crucial there, as well. I think, also, there is a role for boards themselves to have that responsibility to look at themselves and, periodically, to assess and consider whether they have the right strengths, the right skills to deliver their businesses effectively going forward, and, if not, to try and address that.

[217] **Mohammad Asghar:** Okay. How does the Council of Mortgage Lenders believe that living wills and asset registers could mitigate the risk to other associations in the case of an association's failure?

[218] **Mr Marr:** Clearly, if an association fails—and certainly that hasn't happened, and we hope that it won't happen—it will be important for any rescuer of that business to be able to clearly identify the assets and liabilities of that business, and to use that information, whether it be in a living will or in a well updated asset register, to undertake their own due diligence about the rescue proposal. So, I think living wills certainly are a good idea. They can ease the process of rescue where that has to be deployed, and, obviously, up-to-date asset and liability registers are a key part of that.

[219] **Mr Hughes:** Perhaps, just to add from a banking sector perspective, we operate in a sector that's also very highly regulated and there is an expectation that, in the event of an organisation getting into difficulties, we have very robust plans and procedures in terms of every aspect of the business, and a plan as to what we might do in the event of that. Clearly, we would be speaking very closely with regulators at that point, but we've encouraged the use of living wills because, in any instance of crisis, it's very difficult for people to make informed decisions, and if you don't have that information at your fingertips, it can make it even more challenging. So, therefore, having a very robust living will—for want of a better word—I think can be very helpful in that process. So, for example, picking up the type of organisation that you might feel would be compatible if you were looking to encourage a merger. Whether an organisation was analogous, shared the same values, behaviours, whether they had emphasis on different cultures—all of that is really important, and that's something we've offered to share with the sector in terms of our experience in developing learning wills, and, certainly, Welsh Government officials have been very keen to work with us on that. Clearly, we don't have all the answers, but as a sector that's undergone all of that, it makes sense to share best practice.

[220] **Mohammad Asghar:** Thank you very much. From our earlier witnesses, we found that housing association people have some highly professional,

skilled people. I personally think that's not the case—it's you, CML, who must be really professional, especially under these circumstances in this country, and after Brexit and all these interest rates. There are a lot of areas in which you have to be very concerned, because, the thing is that we need to improve our housing stock here in Wales, and the lending, which is very close to a certain level at which we cannot sustain this interest rate forever. So, what is your risk assessment of whether the sustainability in Wales is there in your sector?

[221] **Mr Marr:** There is a number of issues in there, and you mentioned, for example, the vote to leave the EU; clearly, we don't know how that's going to pan out in terms of its impact on funding, housing markets or the wider economy, so there isn't, I don't think, a great deal that we can comment on in relation to that. But looking at individual housing association businesses, and say, for example, interest rate rises, which, to some extent, may be inevitable in the medium term—again, we're guessing—we would certainly expect, and funders would expect, individual businesses to be stress testing. It's been mentioned previously. Clearly, there are a number of Treasury management mechanisms that businesses can deploy to manage out the risk of interest rate rises, so hedging and the like. And it's quite natural and appropriate, I think, for housing associations to look to those sorts of strategies to deal with, say, for example, interest rate rises.

[222] More widely in terms of other factors that might impact businesses—the vote to leave the EU; the changes to the overall economy; and the impact on household incomes, for example, that might impact on tenants' ability to sustain the rent—again, these are all issues that I would expect housing associations to be examining closely through stress testing on a number of different variables, to see what combinations might break the business, and then to put in place measures to make sure that that doesn't happen, as far as possible.

[223] **Mr Hughes:** I think the question is very well founded as, clearly, we need to be very focused on risk at the moment. I guess it was ever thus, but the challenge, particularly in an environment where there are fewer social housing grants, potentially organisations are being encouraged to do more for less, which will potentially place pressures on balance sheets and therefore may encourage different types of models to be developed, it's incumbent on the sectors, the boards, to keep focused on what those risks are and to manage them adeptly, through having very robust governance.

[224] In terms of the risks, we do look at the Welsh Government. It announced its risk metrics for the sector and I think that report was published in March. When we looked separately and dispassionately at what the lending community's view of the risks to the sector were, we didn't find anything that was inconsistent with what the Welsh Government's view was, particularly around welfare reform, the interest rate environment, the benign interest rate environment—all of those things were there.

[225] One area that I guess is before us is, potentially: what is the depth of executive and board competence? That's always an area for challenge. Particularly, we're going through a situation where, latterly, there have been a number of retirements and some long-standing chief executives are now beginning to stand down, and what we need to understand is: what's the level of 'bench' strength of the people coming through? So, we're going into a new phase where some of the more experienced hands at the tiller are moving on. So, that's something that the lending community is looking at as well. But, there's nothing to suggest that that isn't going to be managed very adeptly through the boards. It's just something that risks change over time and we need to be alert to those.

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

[227] **Rhianon Passmore:** Thank you. You've mentioned risks around welfare reform and the debt that's associated with that, and we've also mentioned in the previous session the strengthening of governance and a new focus on the governance of boards, which you've also mentioned. We talked about the Essex review and the strengthening of the regulation team earlier; I don't know whether you picked up on that, but I know that you're aware of it. With regard to balancing those issues with the risks that the sector faces, if we are looking at a failed housing association, what is the overall perspective, from your view, with regard to any sectorial contagion in terms of how that would impact in terms of your mandate?

[228] **Mr Marr:** I think if there is an association failure, then there is clearly potential for that, in itself, to spread contagion about the robustness and the reputation of the sector beyond that individual organisation. So, yes, that is a risk.

[229] **Rhianon Passmore:** You've mentioned living wills, or it's been mentioned in terms of asset registers. That's all very well and good if it's a 'nice to have', but do you think that needs to be strengthened? What would

you like to see, from your perspective, in terms of being able to strengthen regulation, or is that not what you want?

[230] **Mr Marr:** I think, yes, living wills, if they were to be adopted, if you like, would be something that would strengthen the situation in a situation of failure. I don't know if there's something you want to add, Peter.

[231] **Mr Hughes:** No, I think a lot will come down to the confidence of dealing with the regulator in the event of an association coming into any sorts of difficulties. So, the greater the experience and capacity there is within the regulator to work collaboratively and constructively through that process, would hopefully minimise the likelihood of a failure whereby, you know—. Because, unquestionably, the demise of an association would be unhelpful. It's unhelpful for the sector and it's very unhelpful for the lending community because of the impact in terms of credit ratings. So, there is a number of knock-on effects. But one of the things that we welcome within the Welsh Government's regime is that there is now a banker appointed within that team and, actually, I think that really strengthens it because you've got somebody with a body of experience who actually understands through the lens of a lender what might be the levers that could be pulled, and some of the internal thinking. I think, hopefully, that's helpful. It's just about working collaboratively and constructively. I think, in that respect, the sector has a proud record in that there haven't been any failures in the sector. We never say never and we learn from our mistakes, which is why we're anxious that that impending report is published and is transparent.

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

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

[234] **Neil Hamilton:** What do you see as the major risks now facing the housing association sector?

[235] **Mr Marr:** I think there are a number of areas of risk, not only for the individual association, but then for the sector of which it's a part. And then there are wider, if you like, external risks. So, looking at the individual association, there could be risks around its ability to attract and retain the skills and expertise that it needs on its board for it to be able to be effective and deliver its service to tenants. There may also be risks around development if it's a developing association, and Government would expect and hope that most associations will be developing—

[236] **Neil Hamilton:** What do you mean by ‘developing’?

[237] **Mr Marr:** By that, I mean actively developing building—

[238] **Neil Hamilton:** Growing, you mean, or—

[239] **Mr Marr:** Building houses.

[240] **Neil Hamilton:** Oh, that sort of thing—property development.

[241] **Mr Marr:** Yes. So, if an association, say, hasn’t been developing previously and now wants to develop to take up that challenge of helping Government meet its affordable housing targets, then it may be lacking some of the skills and knowledge to be able to do that effectively. So, that could be a risk.

[242] There could be risks around diversification of the business, and I know this is an issue that the committee’s talked about previously. But, again, I think that comes down to an effective board being able to identify the risks associated with a different product from a different area of business, and being able to manage those effectively. There could be risks around welfare reform and the ability of tenants to continue to afford to pay the rent. So, those are some of the areas of risks that might be presenting to individual associations.

[243] Then, I think in terms of sector risks, we’ve touched on ONS. I think that is a major area of risk for the sector and for Government, because it will be quite important from the funder’s perspective that you get that right. Essentially, that will be about striking a very fine but very correct balance between deregulating, between loosening Government’s influence and control, but still allowing the regulator to be effective and to have teeth, so that the regulator can provide the required confidence for funders.

[244] And then, looking at wider external risks, we’ve touched on the vote to leave the EU: we don’t know how that’s going to pan out. There are possible impacts for housing associations in terms of the availability of labour and materials if they’re actively pursuing house building and development programmes. And, there are also wider economic risks, which we’re all facing, in terms of how the departure from the EU might affect us all.

15:45

[245] **Neil Hamilton:** Well, those are all known unknowns, aren't they? And, in any event, the impacts either way are likely to be small in the short term. But, I'm wondering to what extent the growing diversification of housing associations is regarded as an important risk. I've been quite surprised to see that housing associations are going into areas that are perhaps a long way removed from their original purpose. It's been justified on grounds that if you make a successful commercial investment, the profit from that can then be recycled into social housing. But, if housing associations are going into the provision of student accommodation, nursing accommodation, or actually engaged in mainstream commercial property development, such as we have here in the middle of Cardiff, in Cardiff Bay, and the St David's development as well, given the qualitative difference between a housing association and the nature of its board, compared with the commercial property development company—. I've no idea, because we don't have the statistical basis upon which to come to any judgment to what extent what might be a very ancillary activity becomes a much bigger part of a housing association's business. The governance skills are not available on the board, given the voluntary nature of most of its members.

[246] I'm no great believer in the efficacy of regulation, actually, because it didn't stop the banking crisis, although banking has, for many decades, been a heavily regulated industry. Ultimately, commercial good sense is what matters and, at various times, a feeling of euphoria surrounds the whole economy and in those circumstances idiotic decisions, as seen in retrospect, are made, by otherwise pretty sensible people. So, what I'm trying to identify here is the germ of a potential problem for the future, which we ought to flag up at an early stage.

[247] **Mr Hughes:** Okay. It's a core part—. It's a very understandable question. A very core part of any credit analysis that we undertake is what level of diversification associations have taken on board. What I would say is that, in Wales, historically, if I go back 10 years, the regulator had a very risk-averse approach to any sort of diversification. I think it's possibly developed into more risk aware, as opposed to risk averse. We don't see diversification as that wide a risk within Wales. Any diversification we've tended to see has been analogous with the core business. So, for example, we have seen some expand or diversify into nursing and residential homes, and where we've seen that, the big emphasis we have through the credit

assessment is: what does the board look like? And I can think of one example, it's not appropriate to name it, but there's a heavyweight presence from people from that nursing and care background on the association's board, which is what we would expect. We're also seeing some diversification into providing shared ownership and other related affordable products. So, affordable rent as opposed to social rent. And, again, as they're analogous with the core proposition of the association, and it enables it to reinvest its surplus to increase the value of the core business, we've been satisfied that that risk isn't a significant risk within Wales.

[248] **Neil Hamilton:** So, we're not going to have a kind of Northern Rock situation, where they were lending 125 per cent of the value of the assets, et cetera, because of the commercial good sense of lenders, which we can rely on for the future.

[249] **Mr Hughes:** As somebody from the lending community, hopefully, I don't have to be drawn too much into that. One never says never. We look at the risks as we see them. Diversification is a challenge, and it can be tempting to go into sectors where the money looks good, but there is no easy money and it has to be viewed sensibly through what's the measure of diversification. So, if I make it analogous to the building society sector, clearly our main business is the provision of retail mortgages, and providing savings. But there is some limited diversification allowed, and our board keep us marching to a very conservative script, into what level of diversification, and also if it's consistent with the brand and purpose. So, are we investing in our own communities? So, the key part of mutuality we see is job creation in our core communities. So, therefore, if that is consistent with the purpose, then our board are likely to be more sympathetic, but it must not depart from the core business of the organisation, and I do see a lot of parallels with the social housing sector.

[250] **Neil Hamilton:** Well, I think you identified the key question to ask in these circumstances—whether the board of the housing association is itself constructed in such a way as to produce a benign rather than a malign outcome, and people know what they're doing, and the risks are effectively managed. To what extent do you think that the Welsh Government's regulatory team has adequate oversight of risk, and gets enough information, and early enough, to be able to manage risks appropriately?

[251] **Mr Marr:** I think from where we're sitting—and Peter, I'm sure, will have his own observations as well—it does seem as if Government has

sufficient oversight, it has sufficient presence, I think, in boardrooms, to be able to gather regulatory intelligence, and use that to inform its decision making. Again, it's one of those questions about known unknowns, I think, or unknown unknowns, or something like that. Peter.

[252] **Mr Hughes:** I'd really echo what John said. I think that, under the regulation managers, and the approach there is to regulation, there is a regular programme of engagement with associations, and that will be across a lot of measures, not just reviewing desktop information, but also participation at board meetings, or, rather, attendance at board meetings, to see what the depth of challenge there is at board meetings, and the level of debate. So, we know that the Welsh Government have a lot of tools in their locker, and based on what we see, they appear to be using them adeptly.

[253] **Neil Hamilton:** Do you have a lot of interaction with them, as a council, with the Welsh Government's regulatory team?

[254] **Mr Hughes:** Indeed. We meet with—

[255] **Mr Marr:** We do indeed. We have a series of quarterly meetings, sort of liaison meetings, with Welsh Government, which involve the regulator quite extensively. And perhaps one of the ways of demonstrating the improvement journey in regulation—coming back to one of the original questions about how effective regulation is—is that our quality of engagement that we have now with the regulator is very good, I would say. There is an open, frank discussion, which we find very beneficial from our perspective as representing funds or interests, and, obviously, it's a channel of providing feedback to the regulator as well. So, we do feel engaged. We're very grateful for that, and I think it demonstrates a willingness on the part of Government to engage and to listen to key stakeholders, such as funders.

[256] **Neil Hamilton:** A key part of regulation—or, indeed, running a business, for that matter—is to think of the Doomsday scenario, and what would happen—are we prepared to cope with that? Obviously, you have to factor into these considerations of cost, as against the evaluation of risk. But to what extent do you think that the Welsh Government is prepared to deal with the possibility that one major housing association would fail, and the impact that that would have upon the sector as a whole? It would probably become more difficult to raise capital, for example, as a consequence.

[257] **Mr Marr:** I think the new approach to regulation, when it's

implemented, and it's starting to be implemented now, should put Government in a much better place in terms of that 'what if' scenario. I think it would do that by providing the regulator and Government with, I think, hopefully, earlier indicators of problems, and, therefore, hopefully, more time to be able to intervene in an appropriate way, to start to put things right. So, that would be about using the right powers at the right time. One of the other dimensions to the issue that you raise there I think is about resources. The 'what if' scenario: if an association fails, these are usually, or can be, situations that require a very rapid deployment of resources in a very intense, challenging way. The question I think is for Governments to be convinced and persuaded that the right level of resources are in place so that the regulator can respond quickly and effectively when it has to. So, it's resourcing for that 'what if' situation, that sort of non-standard situation, rather than resourcing for day-to-day regulation and day-to-day activity.

[258] **Neil Hamilton:** Can I just ask one rather specific question, arising out of the ONS classification decision, on whether you think reversing that decision could result in deregulation, which lenders might find undesirable?

[259] **Mr Marr:** I think that is a possibility. It's a concern. We see from the experience in England and from the discussions that are now starting to take place in Scotland and Northern Ireland that, I think, if deregulation proceeds in such a way as to whittle away and dilute the regulator's powers to such an extent that they are no longer effective, that would be a real concern for funders, because ultimately, at the end of the day, this is a regulated sector, it's regulated in a robust way. To diminish the regulator's powers to step in and to act when it has to would be a solution that I don't think the Government would necessarily want to entertain—hopefully.

[260] **Neil Hamilton:** That would mean a bigger risk for you and, therefore, that would come at a price, in terms of the cost of lending money.

[261] **Mr Marr:** Well, the ONS would be one factor among many factors in funders' decisions about pricing. I don't think it would be possible to isolate that in itself, and say, 'If the sector was deregulated, then would that increase or change price?' So, it's one factor amongst many. But, certainly, the robustness of regulation is one of the positives in the extent to which the sector's been able to attract the level of private funding that it has.

[262] **Neil Hamilton:** Thank you.

[263] **Nick Ramsay:** Right, we're into the last three minutes and three Members have indicated they've got questions, so it doesn't take a rocket scientist to work out I need succinct questions and succinct answers to run to time. First of all, Neil McEvoy.

[264] **Neil McEvoy:** Okay. I think housing is in crisis in Wales. Can you see any benefits to adopting the north of Ireland approach with one single housing executive?

[265] **Mr Marr:** I think the diversity of the sector has been, and continues to be, one of its strengths. In Northern Ireland, clearly you've referred to the single housing executive. There have been discussions about the future of the exec in Northern Ireland and about the possibility of separating that into a number of different businesses. I wouldn't necessarily say that one approach is better than the other, but with a diverse range of providers, one might expect that that diversity would be better able to service local communities.

[266] **Neil McEvoy:** Great.

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

[268] **Rhianon Passmore:** Do you think there should be less flexibility around diversification for local boards, i.e. more regulation, or not?

[269] **Mr Marr:** I think ultimately that would be an issue for the boards to decide. I certainly wouldn't—

[270] **Rhianon Passmore:** From a Welsh Government level, and therefore from your perspective in terms of the health of boards and the health and capacity of housing associations.

[271] **Mr Hughes:** Sorry, is this question that less flexibility should be conferred on associations to be able to diversify?

[272] **Rhianon Passmore:** Yes, i.e. more regulation in terms of an ability to diversify, in terms of the risk, then, that could be passported in terms of failure, potentially.

[273] **Mr Hughes:** I guess if that were the case, then it might trip further into the ONS challenge in terms of Government intervention to the sector.

Essentially, these are stand-alone organisations and therefore there would need to be a balance found. My sense of the environment at the moment is that Welsh Government reports do focus very heavily on diversification, so they probably have enough—. They have the capability to influence that, I would have thought, to the degree that they need to.

16:00

[274] **Nick Ramsay:** And last, but by no means least, Mike Hedges.

[275] **Mike Hedges:** Chair, very briefly: if you look at anything that has gone wrong, there are three things that have happened: you've had group think, group enthusiasm and an expectation that tomorrow is going to be like today. What level of interest rates would you think that these housing associations should put in when they're checking to make sure they are fully resilient?

[276] **Mr Marr:** That's a tough one. I don't think we could necessarily specify a particular level. Ultimately, that would be for the business to determine, I think, itself through its stress testing. I mentioned previously that we can expect, possibly, that interest rates will start to go up and that businesses will be putting in place strategies to manage out that risk, but I'm not sure we can say at what point a particular rate or level causes issues.

[277] **Mr Hughes:** We wouldn't want to be prescriptive on that. You would have to look at each on its own merits. There are different risks within different organisations, but the stress testing is something that as a bank, or as a building society, we have a huge amount of experience of, and what stress testing to destruction means. We would expect associations to do the same exercise but we wouldn't want to second guess what that rate is.

[278] **Mike Hedges:** Okay. Could you confirm that you can only hedge for a certain length of time?

[279] **Mr Hughes:** Well, the association's board should only be hedging—. The answer is 'yes' and there will be constraints. But the association's board should only be hedging to the extent that it has loans applicable to whatever period that it's hedged out to. So, any sort of speculation would be inappropriate. What we found is that hedging—. Our boards take a very sensible approach to hedging and have access to a range of advice that supports them in the decision making on that front.

[280] **Mike Hedges:** Thank you.

[281] **Nick Ramsay:** Great. We've stress tested our time to destruction. Can I thank our witnesses, John Marr and Peter Hughes, for being with us today? That's been really helpful. We will send you a draft copy of the transcript before we finalise it, just in case there's anything in there you'd like to correct.

[282] **Mr Hughes:** Thank you.

[283] **Mr Marr:** Thank you.

[284] **Nick Ramsay:** Thank you for being with us today.

16:02

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod
Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd ar gyfer eitemau 6, 7, 8 and 9 yn unol â Rheol Sefydlog
17.42.*

*exclude the public for items 6, 7, 8
and 9 in accordance with Standing
Order 17.42.*

Cynigiwyd y cynnig.

Motion moved.

[285] **Nick Ramsay:** I propose, in accordance with Standing Order 17.42, that the committee resolves to meet in private for items 6, 7, 8 and 9 of today's meeting.

Derbyniwyd y cynnig.

Motion agreed.

*Daeth rhan gyhoeddus y cyfarfod i ben am 16:03.
The public part of the meeting ended at 16:03.*

