House of Commons

Committee of Public Accounts

# Progress with the disposal of public land for new homes

## Twenty-second Report of Session 2016–17

*Report, together with formal minutes relating to the report*

*Ordered by the House of Commons to be printed 26 October 2016*

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## The Committee of Public Accounts

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Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No. 148. These are available on the Internet via www.parliament.uk.

### Publication

Committee reports are published on the Committee's website and in print by Order of the House.

Evidence relating to this report is published on the inquiry publications page of the Committee's website.

### Committee staff

The current staff of the Committee are Dr Stephen McGinness (Clerk), Dr Mark Ewbank (Second Clerk), George James (Senior Committee Assistant), Sue Alexander and Ruby Radley (Committee Assistants), and Tim Bowden (Media Officer).

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# Contents

# Summary

We recognise that the Department for Communities and Local Government (the Department) and individual departments have made progress, since our report in September 2015, on managing the disposal of public land for new homes. The Department has put in place guidance and monitoring arrangements for the 2015–2020 programme, although it has yet to publish these. It has also made clearer other departments' roles and responsibilities. We are also pleased that the Department has now agreed to monitor the number of homes actually built; the programme is an important part of addressing the current housing shortage and the taxpayer has a right to know how many homes are built as a result of it.

However, there is still a long way to go to ensure that departments release enough land, by 2020, with the capacity for at least 160,000 new homes. All departments have made a slow start in releasing land, and so the success of the programme will depend on accelerating land sales significantly in the remaining years to 2020. For many of the sites identified for future sale there are a number of risks still to be addressed and it is far from certain that they will actually be made available for new homes, or when, and there is no contingency in the programme. The Department for Communities and Local Government also needs to firm up the detail of its monitoring and reporting processes; to make all details of the programme public so that roles, responsibilities and accountabilities are clear and transparent thereby providing assurance to taxpayers that they will see the benefits of this programme.

# Introduction

In September 2015 the Committee reported on the previous government's programme to "release enough public land to build as many as 100,000 new, much-needed, homes and support as many as 25,000 jobs by 2015". We concluded that the Department for Communities and Local Government could not demonstrate the success of the programme in addressing the housing shortage or achieving value for money, and we made several recommendations for improvement. In light of its Treasury Minute response to our report, which failed to address our concerns adequately, and the start of the new programme in May 2015, we recalled the Department to give further evidence in January 2016. The new programme and the government's commitment—"to sell land with capacity for more than 160,000 homes" by April 2020—is the subject of this report. The Department for Communities and Local Government again holds overall policy responsibility for the new programme and for meeting the programme commitment by 2020. Individual departments have been set their own target contributions, with the major contributors being the Ministry of Defence (land with capacity for 55,000 homes), the Department for Transport (38,000), the Department for Communities and Local Government itself (36,000) and the Department of Health (26,000).

# Conclusions and recommendations

1. **Departments have made a slow start in releasing land. The new programme is back-loaded, which increases the risk that government will not meet its commitment.** At the end of March 2016, almost a year into the new programme, government had disposed of land with capacity to build an estimated 8,580 homes across 77 sites, which represents 5% of the programme commitment. The performance of individual departments has varied. For example, by March 2016 the Department for Communities and Local Government had disposed of 12% of its target (land with a capacity for 4,326 homes), whilst the Department for Transport had achieved only 0.2% (with capacity for just 71 homes). The Department for Communities and Local Government told us that the latest figures, for June 2016 at the time we took evidence, showed progress to be around 7% of the programme commitment. Departments will therefore have to find land for around another 149,000 homes by April 2020, which represents a significant acceleration in the last years of the programme. The slow start to the new programme also suggests that departments either took their eye off the ball at the end of the previous programme that ran up to 2015 or are struggling to find suitable sites; resulting in a stop-start approach when it was entirely foreseeable that the programme would be extended under the new Government.

   **Recommendation:** ***Individual departments should focus on increasing the rate of disposal to meet the target by 2020. At a programme level, the Department for Communities and Local Government should work with other departments to identify the barriers that are preventing the sale of land and the main risks, together with actions to address them and ensure any sites sold achieve an acceptable return for taxpayers while balancing the need for housing.***

2. **The majority of sites identified by departments for future disposal are speculative, and many are still being used to deliver public services.** Departments have identified further sites for disposal within the life of the programme with potential capacity for over 104,000 more homes, a further 65% of the 160,000 commitment. Over 50% of the estimated housing capacity identified is on sites considered ‘high risk’. Many sites identified for disposal are still in operational use by departments, and their disposal depends on other policy decisions. For example, the Department of Health told us it has an objective to encourage organisations in the health sector to use the land they hold to provide accommodation for key health workers. Any delay in taking these decisions will back-load the programme further, and put at even greater risk the likelihood that government will deliver on its 160,000 potential homes commitment. Some departments are planning to identify sites with housing capacity in excess of their target to allow for a proportion of high risk sites to fall out of the programme. The Ministry of Defence is trying to reduce the ‘high risk’ element of its current forecasts from 68% to 17%.

   **Recommendation:** ***All departments need to identify capacity over their individual targets to create sufficient contingency in the programme to meet the overall commitment, without feeling pressurised to include sites for disposal if they think it is unlikely that homes will be built on these sites.***

3. **The Department for Communities and Local Government has not made public the roles and responsibilities for the programme or decided how it will monitor the construction of homes on the sites sold.** In December 2015 the Department for Communities and Local Government provided departments with a programme handbook, which sets out the objectives of the programme and the relevant responsibilities of those involved. But, despite previous commitments to do so, it has yet to publish these details. On monitoring the number of new homes actually built on land sold, we are pleased that the Department has now agreed to monitor construction, for both the current and previous programme, having previously rejected our September 2015 recommendation to do so. This will be fundamental to assessing value for money and the actual contribution of the programme to addressing the housing shortage, rather than judging success merely on a notional number of 'potential' homes. The Department has yet to decide on the detail of how it will monitor construction or make its approach public and the Department's 'general presumption' that its role is over at the point of sale leaves us concerned about its ability to to assure the delivery of the homes the Government has promised. It is important for both transparency and accountability that the Department publish all details as soon as possible. It told us it hoped to do so "very soon", but would not commit to a date.

   **Recommendation:** ***After lengthy delays, the Department for Communities and Local Government must now publish the programme handbook, including details of how it will monitor construction, as soon as possible and inform us how it will do this. It needs to ensure that its approach to the monitoring of construction demonstrates how the programme is addressing the housing shortage.***

4. **The Department for Communities and Local Government has not yet decided what will be included in its annual report on the programme, or when it will be published.** The Department has promised to publish an annual report for the programme, setting out progress towards the 160,000 potential homes commitment. The Department is yet to decide exactly what the annual report will include or when the first will be published, but said it expected the report to include postcode information and the number of homes built for all sites sold.

   **Recommendation:** ***As a minimum, the annual report should cover: the number and estimated capacity of sites released, details of sites identified for future disposal including their risk rating, sales proceeds, details of sites released (including postcodes), and construction of new homes by type and tenure.***

5. **There are many factors for departments to consider in maximising value for money in the sale of land.** Departments are to contribute to government commitments both to release public sector land for at least 160,000 new homes and also to realise £5 billion of receipts from the sale of land and property by 2020. Departments also have to ensure that they retain the estate necessary to fulfil their functions and provide public services, and that they do not compromise other objectives when disposing of land; the Department of Health, for example, wants to encourage organisations in the health sector to use the land they hold to provide accommodation for key health workers. There is also a risk to value for money if departments accelerate sales to meet the target without being sensitive to how the timing of sales can be key to securing the maximum return for the taxpayer.

**Recommendation:** ***Departments should make public their estate strategies to demonstrate how they decide that land is surplus. All departments should outline the factors they will consider to ensure that each sale represents value for money, and set out how they are identifying any wider benefits, including for staff and key workers, which contribute to the departments' objectives.***

# 1 Releasing land for new homes

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Department for Communities and Local Government as the department responsible for the programme commitment to release land with capacity for 160,000 homes by April 2020.[1] We also took evidence from the Homes and Communities Agency, which is in charge of meeting the Department for Communities and Local Government's individual disposals target, and from three departments that are major contributors to the programme. These three departments were: the Ministry of Defence, the Department of Health and the Department for Transport.

## Progress in disposing of land

2. The new cross-government programme for the disposal of public land for new homes started in May 2015.[2] Departments have made a slow start in releasing land as part of this programme. Almost a year into the programme, at the end of March 2016, government had disposed of land with capacity to build an estimated 8,580 homes across 77 sites, which represents 5% of the programme commitment. Land with capacity for a further 4,853 homes had been sold in the same period, but at the time of the C&AG's report, July 2016, the Homes and Communities Agency had not obtained sufficient evidence that the sites would be developed for housing (evidence which is required in order for sites to be scored against the programme).[3]

3. We challenged individual departments on the rate of progress with disposing of land. The Department for Transport explained that as this was the first year of the new programme, it had spent time establishing the governance arrangements for the programme, agreeing departments' contributions, and designing the programme structure.[4] The Department for Communities and Local Government's view was that the Spending Review process affected the speed at which the programme could start. However, despite these common issues, performance to date has varied widely between departments. By March 2016, the Department for Communities and Local Government had disposed of 12% of its target (land with capacity for 4,326 homes out of a 36,000 target), the Ministry of Defence 1.5% of its target (856 out of 55,000), and the Department for Transport only 0.2% (71 out of 38,000).[5] **Figure 1** sets out individual departments' progress against the programme commitment.

1 C&AG's Report, *Disposal of public land for new homes: a progress report*, Session 2016–17, HC 510, 12 July 2016
2 C&AG's Report, para 1
3 C&AG's Report, paras 12, 3.2, 3.3
4 Q 80; C&AG's Report, para 3.11
5 Q 80; C&AG's Report, Figure 8

**Figure 1: Progress against the programme commitment, by department**

| | Expected contribution to the programme[1] | Estimated capacity of land sold and scored as at March 2016[2] |
|---|---|---|
| Ministry of Defence | 55,000 | 856 |
| Department for Transport | 38,000 | 71 |
| Department for Communities and Local Government | 36,000 | 4,326 |
| Department of Health | 26,000 | 2,971 |
| Ministry of Justice | 5,000 | 135 |
| Department for Business, Energy & Industrial Strategy | 1,000 | 0 |

***Notes***

1. The contributions measure a notional number of homes, representing the potential housing capacity of a site. When a site is disposed of, the selling department estimates the number of homes that a site could support. This estimate is used to measure performance against the commitment.

2. Estimated at time of sale, with evidence of 'planning certainty' provided to the Homes and Communities Agency. This figure includes the estimate capacity of land already sold under the new programme. The total of this column is 8,359, which is 221 less than the total land capacity released to 31 March 2016. This difference relates to land disposals by departments who do not have a specific housing contribution set out in the Spending Review 2015.

Source: C&AG's Report, Figure 8

4. The Department for Transport told us that its low outturn was in part due to a lag in data validation by the Homes and Communities Agency; the latest figures show that land with capacity for 544 homes had been sold, and land with further capacity for 1,200 homes was awaiting validation.[6] The Department for Transport also explained that its target for the new programme represents a nine-fold increase on their target for the previous programme, and that the new programme was both ambitious and challenging. We accept that the new programme target is higher than the first programme, but we noted that each department had agreed to its targets as a part of the set up of the programme.[7]

5. The Department for Communities and Local Government told us that the latest figures at the time of our evidence session, to June 2016, showed progress to have reached around 11,000 potential homes, or approximately 7% of the programme commitment.[8] This means that, to meet the 160,000 programme commitment, departments would need to dispose of land with capacity for around 149,000 homes during the remaining years of the programme.[9] Each department agreed that they considered that the Department for

6 Q 125
7 Q 82; C&AG's Report paras 7, 2.7
8 Q 142
9 The 149,000 potential homes remaining is calculated by deducting the current progress (7%) reported by the Department for Communities and Local Government (11,000) from government's overall commitment (160,000).

Communities and Local Government had improved the management of the programme, and the Ministry of Defence told us that it expected its contribution to less 'back-loaded' than it had been under the previous programme.[10]

## Progress in identifying sites for future sale

6. At March 2016, departments had identified further potential sites with capacity to support 104,461 homes, representing a further 65% of the programme commitment. Departments provide a risk rating for each of these potential sites, based on the likelihood of the site being sold before the end of the programme in 2020.[11] Over 50% of the estimated housing capacity on sites identified for future sale, for the programme as a whole, is on sites considered high risk.[12] Many of these sites are still being used by departments to deliver public services, and their disposal depends on other policy decisions. For example, the Ministry of Defence told us it is currently producing an estate optimisation plan, which looks to reduce the size of its built estate by 30%, whilst ensuring it retains the facilities and capabilities it needs to support the military. In the case of the Department of Health, delays associated with its local Sustainability and Transformation Plans could affect the time it takes NHS Trusts to release sites that are currently being used to deliver services.[13]

7. The Ministry of Defence also told us it recognised that identifying land for future sale with capacity for 100% of its target by 2020 was only part of the challenge; and it was also focusing on decreasing the risk associated with the sites identified. The Ministry of Defence intends to reduce the 'high risk' capacity of sites it has identified for future sale from 68% to 17%, and to identify land in excess of its target to act as a 'buffer' should sites fall out of the programme. The Department of Health also intends to identify more capacity than necessary to ensure that it meets its target. However, as things stand, the programme is likely to be very back-loaded, and the sites identified to date are at high risk of falling out of the programme; therefore there is a real risk that the Government will not achieve its commitment by the end of the programme.[14]

10 Q 83
11 C&AG's Report, paras 13, 3.4, 3.5
12 C&AG's Report, para 13, Figure 5
13 Qq 106, 121
14 Qq 83, 107, 143

# 2 Oversight of the new programme

8. In our September 2015 report, on the first land disposals programme, we concluded that the Department for Communities and Local Government could not demonstrate the success of the programme in addressing the housing shortage or achieving value for money. We made several recommendations for improvement.[15] The Government's Treasury Minute response to our report failed to address our concerns adequately and, in light of there also being the new programme which started in May 2015, we recalled the Department to give further evidence in January 2016.[16] This section of our report looks at the progress made by the Department for Communities and Local Government in setting up and managing the new programme.

## Monitoring, reporting and accountability

9. In our September 2015 Report we recommended that the Department for Communities and Local Government needed to be clear with individual departments as to the guidance they are expected to follow, and must set clear documentary and data requirements.[17] The Department accepted our recommendation and, in December 2015 it provided other land-owning departments with a programme handbook, which sets out the objectives of the programme and the relevant responsibilities of those involved. The handbook also sets out how disposals will count against the overall commitment and how housing capacity will be estimated and counted. The main sections of the handbook are complete, and the document has been used by departments since the start of the year. The Department told us that it regards this document as a 'living document', rather than a draft document, and that it will be revised as and when required.[18]

10. In its Treasury Minute response to our previous report, the Department also said that it would publish the new guidance materials in spring 2016, but at the time of our evidence session in September it had still not done so.[19] The Department told us that it hoped to publish the document "very soon", but that it could not be more specific.[20]

11. In our September 2015 report we commented that the Department could not demonstrate the success of the programme in addressing the housing shortage or achieving value for money, in part because it did not collect information on the actual number of houses built or under construction. Instead, it chose to focus only on a notional number for 'potential' capacity for building houses on the land sold in order to determine 'success'. Nevertheless, in its December 2015 Treasury Minute response the Department rejected our recommendation to monitor progress in the actual construction of homes under the

15 HC Committee of Public Accounts, Disposal of public land for new homes, Second Report of Session 2015–16, HC 289, September 2015.
16 HM Treasury, Government responses on the First to the Third reports from the Committee of Public Accounts: Session 2015–16, and progress on Government Cash Management, Cm 9170, December 2015.
17 ibid, page 7
18 Q 79; C&AG's Report, paras 9, 10, 2.5
19 Treasury Minute response, page 7; C&AG's Report, paras 9, 2.6
20 Q 138

new programme.[21] The Department told us that its position had now changed, and that new Ministers had asked it "to monitor the building of homes right through the planning system on all our sites, in the new programme and the old programme".[22]

12. The Department has yet to decide on the detail of how it will monitor construction or make its approach public. It explained that its general presumption will be that, once a site is sold, its role is over, but that it would monitor whether construction is happening as that will be important for transparency and understanding the impact of the programme.[23] The Department further explained that it would rely on contracts struck, and the level of planning certainty that was in place at the point of sale, rather than routinely intervening if progress on a site were 'stuck'. However, the Department added that it and the Homes and Communities Agency might intervene on some bigger or more important sites where they considered they could make a difference. While acknowledging the Department's statement that it might sometimes intervene to try and move construction forward, we were surprised by the Department's 'general presumption' that its role was over at the point of sale, given government's wider policy aim that there should be one million homes built by 2020.[24]

13. The Department has committed to publishing an annual report for the programme, which will set out progress towards the 160,000 potential homes commitment.[25] The Department has not yet decided exactly what the annual report will include or when the first one will be published. However, the Department told us it expects the annual report will include details of the number of homes built and postcode information for the sites sold. We welcome the opportunity the annual report will provide the public, Parliament and this Committee to monitor the programme's progress and to hold the Department to account for it.[26]

## Ensuring sales are value for money

14. There are many factors for departments to consider as part of their responsibilities for ensuring that each land sale represents value for money for the taxpayer.[27] In the *Spending Review and Autumn Statement 2015*, the Government outlined commitments both to release public sector land for at least 160,000 new homes and also to realise £5 billion of receipts from the sale of land and property by 2020. Departments must sell land to contribute to both of these commitments, and therefore have to balance the need to meet the Spending Review 2015 capital receipts target and to ensure homes will be built on the land sold.[28]

15. Departments also need to retain the estate necessary for fulfilling their functions and providing public services. The Department of Health noted that part of its rationale for engaging Sir Robert Naylor was to look at how the department can release land whilst making sure it ends up with the health estate it needs to deliver services. The Department

21 HC Committee of Public Accounts, Disposal of public land for new homes, Second Report of Session 2015–16, HC 289, September 2015; Treasury Minute response, page 5.
22 Q 77
23 Q 84; C&AG's Report, paras 11, 2.38
24 Q 85
25 C&AG's Report, paras 11, 2.38
26 Q 143
27 C&AG's Report, paras 8, 2.29
28 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, November 2015.

of Health explained how it was also balancing its land disposal target with its objective to encourage organisations in the health sector to use the land they hold to provide accommodation for key health workers.[29]

16. There is a risk to value for money if departments accelerate sales to meet the land release target, without being sensitive to how the timing of sales can be key to securing the maximum return for the taxpayer.[30] We asked if obtaining value for money mattered more than reaching the land disposals commitment. The Department for Communities and Local Government told us that for the most part it did not see a conflict between the two. It told us that the programme deadlines must not compromise value for money, when it may sometimes be better for individual departments to defer a sale in order to get a better return. It said that it managed this risk by trying to create a buffer and increasing the amount of land identified for potential sale.[31]

17. The Ministry of Defence told us that it plans for around 3,000 of its total contribution to the programme commitment to come from cancelling contracts on property it leases from Annington: the private company to which the Ministry of Defence sold its Married Quarters estate in 1999.[32] On cancellation of one of these leases the Ministry of Defence has to pay a remediation charge, which in the recent past has averaged at around £14,000 per home. The Ministry of Defence acknowledged that this posed a value for money question that needs to be addressed.[33]

29 Qq 98, 104, 107, 116
30 C&AG Report, para 2.31
31 Q 136
32 Q 109
33 Q 113

# Formal Minutes

## Wednesday 26 October 2016

Members present:

Meg Hillier, in the Chair

| | |
|---|---|
| Philip Boswell | John Pugh |
| Chris Evans | Karin Smyth |
| Caroline Flint | Anne-Marie Trevelyan |
| Bridget Phillipson | |

Draft Report (*Progress with the disposal of public land for new homes*), proposed by the Chair, brought up and read.

*Ordered,* That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 17 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

*Resolved,* That the Report be the Twenty-second of the Committee to the House.

*Ordered,* That the Chair make the Report to the House.

*Ordered,* That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Monday 31 October 2016 at 3.30pm

# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

| Wednesday 7 September 2016 | *Question number* |
|---|---|
| **Melanie Dawes**, CB, Permanent Secretary, Department for Communities and Local Government, **Stephen Lovegrove**, Permanent Secretary, Ministry of Defence, **Colin Molton**, Deputy Chief Executive/Interim Chief Operations Officer, Homes and Communities Agency, **Chris Wormald**, Permanent Secretary, Department of Health, and **Philip Rutnam**, Permanent Secretary, Department for Transport | Q1–148 |

# Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

DLP numbers are generated by the evidence processing system and so may not be complete.

1 Department for Communities and Local Government (DPL0009)

2 Department of Health (DPL0004)

3 Department of Health (DPL0005)

4 Local Government Association (DPL0001)

5 Mayor of London (DPL0002)

6 Ministry of Defence (DPL0007)

# List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee's website.

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| Second Report | Personal budgets in social care | HC 74 |
| Third Report | Training new teachers | HC 73 |
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| Fifth Report | Capital investment in science projects | HC 126 |
| Sixth Report | Cities and local growth | HC 296 |
| Seventh Report | Confiscations orders: progress review | HC 124 |
| Eighth Report | BBC critical projects | HC 75 |
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HOUSE OF COMMONS

# Public Accounts Committee

## Oral evidence: Department of Health Annual Report and Accounts 2015 -16
## Disposal of Public Land for New Homes: a progress report, HC 634

Wednesday 7 September 2016

Ordered by the House of Commons to be published on 7 September 2016.

Watch the meeting

Members present: Meg Hillier (Chair); Mr Richard Bacon; Chris Evans; Caroline Flint; Kevin Foster; Nigel Mills; Stephen Phillips; Bridget Phillipson; John Pugh; Karin Smyth; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Mike Newbury, Director Financial Audit for the Department of Health, National Audit Office, Aileen Murphie, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-148

### Witnesses

I: Andrew Baigent, Finance Director, Department of Health, Melanie Dawes, CB, Permanent Secretary, Department for Communities and Local Government, Stephen Lovegrove, Permanent Secretary, Ministry of Defence, Colin Molton, Deputy Chief Executive/Interim Chief Operations Officer, Homes and Communities Agency, Philip Rutnam, Permanent Secretary, Department for Transport, David Williams, Director General Finance, Department of Health, and Chris Wormald, Permanent Secretary, Department of Health.

Written evidence from witnesses:

- [Add names of witnesses and hyperlink to submissions]

## Examination of witnesses

Witnesses: Andrew Baigent, David Williams and Chris Wormald.

Q1 **Chair:** Good afternoon, and welcome to the Public Accounts Committee on Wednesday 7 September 2016. We took the opportunity, Mr Wormald, as you are in front of us today, to ask you to come in ahead of the witnesses for our main session just to discuss with you our concern and disappointment that the accounts for your Department were laid on the last day that Parliament sat—21 July of this year, at 11 o'clock. That was a full seven days after the Comptroller and Auditor General had signed them off with an unprecedentedly critical explanatory note.

We are also very concerned about how close to the wind the Department is sailing in these accounts—accounts that have wafer-thin margins; about a series of short-term fixes that are not sustainable, as the Comptroller and Auditor General has very much highlighted; and about piecemeal measures, as well as, as we know, pressure having been put on constituent bodies of the Health family to take a different approach to certain accounting procedures.

I am really seeking reassurances today from you, as the new accounting officer, that this will not happen again. First of all, though, could you explain to me why there was a delay between the Comptroller and Auditor General signing the accounts off and their publication to this House?

***Chris Wormald:*** It is not unusual for there to be a delay of a few days between those two, and of course—

Q2 **Chair:** Sorry, Mr Wormald, but a seven-day delay is a long time.

***Chris Wormald:*** You have exchanged letters with my Secretary of State on these issues, and I don't have a lot to add to what he wrote to you. Obviously, there was quite a lot going on in that period—it was also seven days after the formation of the new Cabinet—

Q3 **Chair:** Mr Wormald, I don't like cutting you off, but I do think we just need quick answers to questions here. It is not unprecedented to have a delay, but a delay of seven days—I think the NAO will back me up on this—is longer than normal, and I do not understand why even a vote on a referendum or a change of Prime Minister stopped you, as the accounting officer, ensuring that the accounts were laid in good time. It smacks of burying bad news.

***Chris Wormald:*** We do not accept that they were not laid in good time; they were laid five months in advance of the statutory deadline. What we were aiming to do was to produce an unqualified set of accounts that was published before the summer recess, and we wanted to publish our accounts at the same time as we published the plan by the NHS about how it was going to reset finances. We wanted to do that at the same time. That was part of the answer to the issues that the Comptroller raised. We wanted to do all that at the same time and that was the day on which we could do it. So I am afraid, as my Secretary of State set out, we do not accept the charge that you are making.

Q4 **Chair:** Well, that gave no time for this House to scrutinise these accounts. And let's be honest, Mr Wormald, these accounts are rotten, aren't they?

***Chris Wormald:*** No. They are an unqualified set of accounts.

Q5 **Chair:** As I said, they sail very close to the wind in terms of the measures that were taken to make the accounts balance. You must acknowledge that.

***Chris Wormald:*** No, we don't accept that, either. All the measures that we took to the accounts—we are quite happy to go through them individually, if that would help the Committee—were within normal professional standards and were signed off by the National Audit Office as being so. There are, of course, as the Comptroller said in his commentary, and we do not deny this at all, a lot of challenges about the NHS budgets, both in this year and going forward to which there needs to be a response. We accept all that—that is why we wanted to publish a plan that the NHS put together about how it was going to put itself on a financially stable footing. So we do not deny this is challenging, but, as I say, it was an unqualified set of accounts.

Q6 **Chair:** Mr Wormald, can you remind us how long you have been in post as accounting officer at the Department of Health?

***Chris Wormald:*** Four months.

Q7 **Chair:** So a couple of months ago you were still very new in post.

***Chris Wormald:*** Yes.

Q8 **Chair:** Weren't you surprised by the extent of the action taken and measures introduced by the Department in order to get the budget in on time? Surely some of those surprised you.

***Chris Wormald:*** The measures? No, as I say they are all within accounting standards and were designated as such by the National Audit Office.

Q9 **Chair:** So you are not concerned by any of the measures.

***Chris Wormald:*** No. I am—everybody is—concerned to put the NHS on a financially stable footing. I discussed this with the Comptroller and Auditor General in quite a lot of detail and we agree that the kind of one-off measures that were necessary this year to bring us within the parliamentary control total is not a sustainable way forward. So on that I think we are all agreed and that is why we wanted the financial reset. That was certainly a concern to me, but that was not a new concern that I brought to the Department. That was shared by my colleagues who have been there longer. And, as I say, I think the National Audit Office were completely correct to identify this.

There isn't really a disagreement between us and the National Audit Office around any of these issues, and we have very good discussions with them, so I wouldn't like to give the impression that there was some sort of dispute between us. They gave us an unqualified opinion, with which we are pleased, and they rightly raised a set of issues for the future that we completely agree we need to deal with. The sense created that there is some sort of disagreement between us is one I don't really agree with.

Q10 **Chair:** You have suggested that, not us. We as a Committee want to know, and other colleagues in the House want to know, whether the Department's accounts will be laid in better time next year and if you will make that pledge, so that there is time for Parliament to scrutinise the exact detail of the accounts while it is sitting.

***Chris Wormald:*** Sorry, but there is a lot of time for Parliament to scrutinise the accounts. They have been laid five months before the statutory deadline, and we are scrutinising them now.

Q11 **Chair:** Mr Wormald, I repeat that twice since resource accounting was introduced has there been any need for the Treasury to extend the deadline beyond 31 January. That is a long deadline. All other accounts come out on time. The point is that normally, it is a day or two after the Comptroller and Auditor General has signed it off. We will leave that for now. I would like you to pledge that you are not going to do it on the last day in future.

***Chris Wormald:*** I am not going to make pledges about—the statutory deadline is properly set, and we produce our accounts before that. We also, in addition to that, like other Departments—

Q12 **Chair:** Okay. You have made that point. I am not sure we agree to disagree; we will have to disagree.

On the main issue of the accounts generally and the budget for the national health service, can you tell us whether the position for 2016-17 will be as tight and difficult as it has been this year?

***Chris Wormald:*** We expect NHS budgets to remain challenging. If you look at the detail of the financial reset that NHS Improvement and NHS England published on the same day as our accounts, it is a tough plan. It is a difficult plan, and it is a challenge for all NHS commissioners and providers to meet. It has a lot of tough challenges within it, including a new financial special measures regime. I can describe that for the Committee, if that is helpful.

It will be a challenge to deliver. If we can deliver that plan and the other elements of what we need to do to make the NHS financially stable long term around delivering the five year forward view and reducing demand on acute, and then in the longer term improving public health by cutting smoking and those sorts of thing, we believe we have a plan that is financially sustainable and that will deliver the spending review settlement and the NHS mandate that the Government has set out. But I am not going to beat about the bush: that is a big challenge for the sector.

Q13 **Chair:** I am glad you acknowledge that at least, as your Secretary of State did on Monday in the House in answer to a question from me. Can I go on to the issue of the national insurance contributions windfall? It was staggering to learn that the Department had, by an administrative error, not taken off the £417 million of national insurance contributions from the estimates. That is unique in the history of the Department. Who took their eye off the ball on that, Mr Wormald? Was it you or Mr Williams?

***Chris Wormald:*** I will ask Andrew to go through the detail, but to be clear, we have transparently acknowledged that this was a mistake. It should not have happened, and we are working with the Treasury on systems to ensure that it does not happen again.

**Chair:** It seems such a basic thing.

***Chris Wormald:*** I will ask Andrew to explain exactly what happened, but as I say, we are not denying that this was a clear error that should not have occurred.

**Chair:** Which you didn't know about until you were preparing the accounts.

***Andrew Baigent:*** That is correct. If I may go into a little detail—

**Chair:** Not too much. We are trying to do this session quite quickly.

***Andrew Baigent:*** What happens is we are notified at the start of the year of an amount for national insurance contributions, and we put that into the estimates process. What then happens is that quarterly, we receive a list of the amounts we get daily, and that comes in. For the final quarter, we receive that in December. It comes in for cash management purposes, so we look at how much cash we need in the day.

First of all, we take the national insurance contributions we are told about and then we top it up by drawing down the consolidated fund. That came in as usual. What was not identified and was not picked up by the system was that those amounts were, if you added them all up, more than we had been told about initially, and there was a breakdown in the system.

Q14 **Chair:** But Mr Baigent, no one would run their household accounts like that, and you are running the Department of Health's accounts. I don't understand how that could have been missed. Who is responsible? Who took their eye off the ball? Was it you?

***Andrew Baigent:*** It is within my area, so in that sense that accountability sits with me. The important thing is that we make sure it never happens again. We have been working very carefully with the Treasury to make sure that that system identifies it and it comes through.

Q15 **Chair:** It just seems incredibly convenient that it happened in a year when the accounts were so stretched that this is what has plugged the gap. Does that not seem extraordinary to you, Mr Wormald?

***Chris Wormald:*** As I say, it was an error and we are not shying away that at all. Of course, it is transparent that we are over our Treasury DEL total, even though we are within the parliamentary total. It was a genuine error and we have had to ensure it does not happen again.

Q16 **Chair:** But it has cost taxpayers—

***Chris Wormald:*** No, it hasn't changed the underlying financial position at all. No one has received more or less money as a result and it has no effect on overall Government financing. Nevertheless, it should have been identified.

Q17 **Chair:** Parliament agreed an estimate and a DEL for the Department and it has been double-spent.

***Chris Wormald:*** No, it has been spent only once. What should have happened is that there should have been a conversation with the Treasury about whether that money would have been retained by the Department or returned to the Exchequer. If it had been returned—

Q18 **Chair:** Then the Exchequer would have been £417 million—

***Chris Wormald:*** No, we would still have overspent so the actual public expenditure—

Q19 **Chair:** Exactly. You have neatly described the point in question. You have plugged a particular size hole in the budget.

***Chris Wormald:*** This is not a secret. The Auditor General's description sets this out in detail.

Q20 **Chair:** It is great to see a confident permanent secretary, Mr Wormald, but if I were you, I would be a bit more embarrassed about such a basic error. Can you tell us it will not happen again?

***Chris Wormald:*** Yes, we are putting in systems to ensure it will not happen again. Sorry, I am trying to be factual. Obviously, this should not have happened.

Q21 **Chair:** I am going to bring in the Comptroller and Auditor General briefly and then Nigel Mills. I then have a couple more questions before I bring in Karin Smyth.

***Sir Amyas Morse:*** It is quite right to say we do not have a fundamental disagreement with the Department about this—I want to be clear about that. Equally, paragraph 21 of our report says: "Where the Department chooses to engage in short-term, non-recurring activity to manage outturn in 2016-17, I will consider the implications for the scope and timing of my 2016-17 audit. I will continue to give careful consideration of the measures taken by the Department…against the Parliamentary controls when framing my opinion". What that says in clear language is that there are explanations for each of these on a one-off basis, but when you put them all together into a package, we would not expect to see a package of adjustments of this scale happening again and we would take a serious view if we did see it. I express that to you very directly. I know we agree about it, but it is worth spelling out.

***Chris Wormald:*** Yes.

***Sir Amyas Morse:*** The other thing—a little point but one that is worth making—is about laying accounts on recess day. It is my understanding that the Department of Health's own accounting manual specifies that that should not done, and the House of Commons guidance on laying accounts specifies that accounts should not be laid on recess day, for pretty obvious reasons. We should not let it be the same as normal business. Laying accounts on day of recess is not something we regard as generally desirable practice and I wouldn't like to sound as if we thought it was.

***Chris Wormald:*** The Auditor General's points are well understood. We have discussed them and not being in that position is why we wish to publish the plans that NHSE and I did on how we would renew financial rigour within the NHS, particularly around provider deficits, but also covering the commissioning system. There isn't a disagreement between us. We recognise the challenges the CAG has raised and we have responded accordingly.

Q22 **Chair:** Mr Wormald, as I said, all these issues combined make us think the accounts are rotten. You say they are not.

***Chris Wormald:*** They are an unqualified set of accounts.

Q23 **Chair:** Are you happy with the accounts this year?

***Chris Wormald:*** As I said, our objective was to have an unqualified set of accounts.

Q24 **Chair:** Technically.

***Chris Wormald:*** That is the standard to which we are held and the standard to which—

***Sir Amyas Morse:*** Will you be opening the accounts for auditing?

***Chris Wormald:*** Yes.

Q25 **Nigel Mills:** I am slightly intrigued about what the defence on the £417 million was. "We had a bit more cash coming in than we thought and we just didn't notice for a while"? It will sound a little strange out in the country that, even for a budget as large as the NHS has, you can have a lot of money turning up and you just didn't quite realise it was more than you were expecting for quite a long time. Is that really, realistically, what happened?

***Andrew Baigent:*** It is what happened. I tried to explain earlier the way that we were notified of that, which is that we get a daily list of things and what we concentrate on is making sure we don't draw more money down than we need on a daily basis from the Treasury. That was used to adjust the amount we draw down. What was missed was then adding it up to get to a total. As the permanent secretary said, that was an error.

Q26 **Nigel Mills:** So what was missed was adding up the amount of money you'd got coming in to see whether it was the number you thought you'd got coming in?

***Andrew Baigent:*** In terms of the funding source for national insurance, yes, that is correct.

Q27 **Nigel Mills:** This is quite fundamental. Presumably, if any major company that was quoted on the stock exchange had to publish in its accounts, "Oh, very sorry. We managed to have a £417 million hole because we didn't quite add up what we were getting to see if whether it was what we thought we were getting," that would be a hell of a mess, wouldn't it?

***Andrew Baigent:*** I understand the point. What I would say is, in terms of the audit opinion, our expenditure figures were right and our income figures were right, in the way that the accounts are put together in accordance with accounting standards. There were no errors or mistakes in those elements.

Q28 **Chair:** So what you need is a calculator so you can do the maths? We might have a whip round.

***Andrew Baigent:*** What we need to do is make sure that we get a system in place that identifies the issue that happened this year and is—

Q29 **Chair:** As you can gather, around the Committee table we still can't understand how it has never happened before. It happened this year and you have had to introduce new systems to make sure it doesn't happen again. What changed between the last, however many years—1948 to now?

***Andrew Baigent:*** It is a relatively new way of doing things under the clear line of sight, so it is not 1940-whatever. I have looked in massive depth as to how this happened, because, as you say, it is very difficult to see how it can happen in that way. It is because of the way that we were notified and the purpose that that schedule came in for. We just need to make sure it doesn't happen again.

Q30 **Karin Smyth:** With due respect, it seems to the rest of the country that every stone has been turned in every single one of the 20-plus arm's length bodies within the Department of Health and NHS England to find every spare penny of cash that is available. Two different transaction bodies look at different ways of accounting with different guidance on how to account, which all look much more favourable to the overall position—which is outside in the auditor's report—and suddenly £417 million, which gives you the ability to get underneath the limit by £200 million, is the one thing you don't find. I think that is what looks astonishing to the rest of the country.

***Chris Wormald:*** I am not sure there is much more I can add to what has already been said. It was an error. It should not have happened.

Q31 **Chair:** So it won't happen again?

***Chris Wormald:*** We have a system in place with the Treasury to ensure it never happens again.

Q32 **Nigel Mills:** If you had found the error was the other way and you were getting less cash than you thought you were getting, would something have tripped the system to go, "We can't pay the bills here"?

***Andrew Baigent:*** When we have looked back into it, it has happened before where there has been less cash coming in and it hasn't been identified—on, I have to say, a much smaller magnitude.

Q33 **Nigel Mills:** So this isn't a one-off? This happens every year?

***Andrew Baigent:*** It hasn't happened for the last few years but it has happened in the past.

Q34 **Karin Smyth:** Do we know why the Treasury were not aware they had lost £417 million?

***Andrew Baigent:*** No one has actually lost any money. This is how it is accounted for and it is not the Treasury's job to notice, it is our job to notify.

Q35 **Chair:** Perhaps we can ask the Treasury Officer of Accounts what it says about the Treasury's oversight of the estimates procedure. Are there any issues there that the Treasury needs to take up?

***Marius Gallaher:*** In this particular case we rely on the Department of Health to inform us about the national insurance contributions. If we weren't informed we can't act. If we had known at the time we may have reacted differently, but certainly we had not got an arrangement that we could second guess what we were being told by the Department of Health.

Q36 **Chair:** So what has the Treasury done about this?

***Marius Gallaher:*** We have worked very closely with the Department of Health. I think we are trying to bring in safeguards and second checks to ensure we don't let this happen again in the future.

Q37 **Chair:** Is there a risk it will happen in other Departments?

***Marius Gallaher:*** We are learning this lesson here, which will apply across the board.

**Chair:** Well, I think you can tell we are sort of gobsmacked.

Q38 **Nigel Mills:** Who pays the national insurance contributions over to the Department of Health?

***Andrew Baigent:*** HMRC.

Q39 **Nigel Mills:** Which is responsible in Government to which Department?

**Chair:** To the Treasury.

Q40 **Nigel Mills:** So it is the Treasury paying the Department of Health, but the Treasury's defence is that they could not know that they were paying a different amount.

***Andrew Baigent:*** No, we are very clear that it was our error.

Q41 **Nigel Mills:** I am just not convinced that the Treasury could not have known, given that it was effectively paying the money.

***Marius Gallaher:*** It hasn't happened before. That is no excuse; I accept that, but we are now learning from this experience, and we hope that this will be avoided in the future.

***Chris Wormald:*** It was our mistake. We do not wish to blame our colleagues because it was not their mistake. It was ours. The solution, however, does involve the Treasury.

Q42 **Chair:** Well, we would hope it involves the Treasury.

***Chris Wormald:*** It was our error but putting together a system to ensure that that never happens again involves us working very closely with the Treasury.

**Chair:** You can sense the gobsmackedness of members of the Committee that this could have happened in the first place.

Q43 **John Pugh:** You say that it hasn't happened before and you are saying that it has happened before. A discrepancy has occurred.

***Andrew Baigent:*** I am saying that there have been relatively small changes in the past to the amount of national insurance that we were expecting and received. That has happened before and it has been missed on one occasion to make the adjustment. It was a tiny amount.

Q44 **John Pugh:** And the Treasury was oblivious on both previous occasions?

***Andrew Baigent:*** None of us knew it had happened until we did the exercise to see whether it had happened before, as a result of this incident.

Q45 **Mr Bacon:** Who is the member of the Department of Health board responsible for finance?

***Andrew Baigent:*** Of the board? Mr Williams.

Q46 **Mr Bacon:** That is what I thought. You have had a very light outing so far, Mr Williams.

***David Williams:*** I have.

**Mr Bacon:** You are actually the man responsible for this on the Department of Health board and yet, so far, you have not been troubled to utter a single syllable.

I was reading *Public Finance*, as one is wont to do, especially with an iPad. It said, Mr Wormald, that your predecessor, Una O'Brien said of Mr Williams' appointment that he was a "highly respected financial strategist with experience of Whitehall, local government and the NHS and she was delighted to have him on her executive team."

Richard Douglas, the former finance director, added, “David is an excellent choice because he has great experience and knows his way around Whitehall and the NHS. I have known David for years. I am very happy leaving, with the comforting certainty that the DH’s finances are in very safe hands.”

You will have spotted the incredulity around the Committee at what has happened. Are you honestly asking us to believe that it was all accidental, that nobody knew and that they did not spot this £400 million?

***David Williams:*** I can only repeat the points that my colleagues have made that this was genuinely an administrative error.

Q47 **Mr Bacon:** It was a very convenient one, wasn’t it?

***David Williams:*** I don’t know how convenient it was. Obviously, if we had spotted it at the time, we would have had a conversation with the Treasury in the run-up to supplementary estimates about whether that money would have been retained—in which case the supplementary estimate would have shown an increase in the non-voted budget for the Department—or whether we would agree with the Treasury that the voted element of the Health budget would have been adjusted by corresponding amounts. It is hard to say here how convenient it is.

Q48 **Mr Bacon:** It seems to me much more likely that not only are you a highly respected financial strategist who knows his way around Whitehall, but you are also a highly experienced financial tactician and that it was your advice that the Department took advantage of to end up with its head under, rather than over, the wire.

***David Williams:*** I can only say that it was genuinely a surprise to me when we discovered this. Funding the Departments through national insurance contributions is not something that happens in every Department. It was not a feature, for instance, of the way in which the Ministry of Defence was funded so it is not particularly a set of issues that I had focused on in my first year-end in health.

It is not as though we get a note saying, “Congratulations, Mr Williams! You are the recipient of an extra £400 million of national insurance contributions.” It is a detailed, day-by-day schedule with daily amounts ranging from single figures of millions to several hundred, the primary purpose of which is to help us to manage that daily drawdown of cash. The bit that we missed in the process was connecting that cash management requirement into the conversations about the overall health budget in the supplementary estimate process, and we will fix that for this year.

**Chair:** Reconciling figures is, as Mr Bacon said, something that is very much squarely at your feet.

Q49 **Karin Smyth:** How much time has been spent on producing these one-off measures throughout the entire system to get within the balance?

***David Williams:*** I am not sure I can give you a precise time quantification. Some aspects of this are part and parcel of the production of end-year positions in what is a—

Q50 **Karin Smyth:** There has been a lot of effort within the Department, hasn't there? We have had exchanges in these sessions about bringing yourselves within the limit for this year.

***David Williams:*** Yes, clearly, living both within the parliamentary vote and the Treasury DEL limits is an important issue. In terms of the activity taken to deliver that, there has obviously been activity and action within the Department itself and work within our national arm's length body partners. To the extent that that is around not a series of accounting adjustments, but some of the efficiency and productivity programmes that we put in place in 2015-16, it spreads out into the NHS, individual CCGs and provider bodies. Given that complexity—it is a set of accounts that consolidate information from over 450 bodies—I can't tell you precisely how much time.

Q51 **Karin Smyth:** We have heard that you have done what the accountants require. I think Mr Wormald said you have been held to the standards to which you are expected to be held. Are you concerned about the impact on the organisations that you are responsible for from these one-off measures and the pressure that has been brought to bear to bring them within the cash limit for this year, Mr Wormald?

***Chris Wormald:*** As I set out before, we accept that the overall financial situation is challenging and we are therefore well aware of the burden that we are placing on individual institutions. It was our intention, and it is indeed what is required of us, to come in within the parliamentary limit, and we make no apology for seeking to do so. One-off measures are a part of that process, as the Auditor General set out, but we do not want them to be part of the process in this way going forward for the reasons that—

Q52 **Karin Smyth:** You are new in post so it was not under your watch.

***Chris Wormald:*** No, I am trying to set out factually the position. Every Department seeks to come in within its parliamentary total; that is always required of us. We have a system of accounting that is across a line—yes or no—and we seek to get across that line. In this case, the one-off measures helped us to do so. As I said, we do not want that to be the situation going forward for the reasons that the Comptroller and I were discussing. That is the purpose of the financial reset. I am not trying to disagree with you. We do not want this to be the way we do things in future.

Q53 **Karin Smyth:** My question is a slightly different one—partly, it is that this has not happened on your watch, actually. You have come in new to look at this and understand the amount of pressure that has been put on the system for several months back, because of the provider deficit at root cause. It is an opportunity to be concerned about the impact, the incentives on those organisations to behave differently and to deliver savings, and the pressure that has been put on finance directors, both in trusts in NHS England and in other Departments. Is that of concern to you?

***Chris Wormald:*** I am not going to comment on things done before I was there. I have set out how I want it to work in future, which is in line with the financial reset document that was published. That specific thing has not been top of my concern list.

Q54 **Chair:** Perhaps Mr Williams can answer Ms Smyth's question about the pressure on organisations. We have all spoken to a number of finance directors. One said to me, "The whole picture was one of increasing panic as the year progressed. It just seemed to get worse and worse." I am talking about panic from the centre down. That was the flavour of what we were getting from people we have spoken to in preparation for this hearing.

***David Williams:*** The situation did indeed get worse through the year. One of the disappointing elements of the 2015-16 position is that the provider-side deficit, despite the action that we took in concert with our national partners, was worse than the providers' own plans at the beginning of the year.

At the start of the contracting round they had plans for a deficit of around £2.1 billion, which we did not believe was acceptable and were looking to improve, but the outturn at £2.45 billion is clearly worse than that. A focus on restoring financial discipline— ensuring that the financial consequences of decisions in the NHS are given appropriate weight—is relevant to short-term control in 2015-16 and indeed this year, but also sets the foundation for the sort of transformation we want to see in future under the Five Year Forward View.

Almost uniquely in my experience, and reflected in some of the conversations we had with the NAO around the risk profile in 2015-16, is that all the incentives in the system by the end of the year were for 2015-16 to look as it bad could be. There were 160 organisations in deficit, so the previous peer pressure that if you were in deficit, you were an outlier, flipped in 2015-16 to being the norm. It is not that I think the people in local trusts were making inappropriate judgments in their year-end position—but where there is a range of professional judgment, that could be brought to bear—I just wanted to check, through some of these exercises, that it was not being skewed too far towards 2015-16 looking as bad as it could, because it was clearly going to be a difficult year, then making 2016-17 look a bit easier.

Q55 **Karin Smyth:** We have looked at the trust position, but looking at the MHRA, for example, the super-dividend that is taken from it would not incentivise me, if I were running the MHRA, to manage my part of the business carefully—that I was not suddenly going to be raided to plug a deficit somewhere else. My point is that you have got to boost morale and incentivise people throughout the system, to help get through this system. The Report from the auditors suggests that the series of measures we have seen are one-off measures—for example, in the MHRA—that do not encourage people to work with the system co-operatively, but incentivise behaviours that will hide things and not be co-operative in the future.

***Chris Wormald:*** I will ask Andrew to comment on the super-dividend specifically, but generally I think there will be quite a lot of agreement between us. As I have said several times, we want it to work differently in the future, on two levels. The first is the financial reset that I have already talked about. The second is fundamental to the underlying question in all this—can we reduce the demand, particularly for acute services?—and requires exactly the kind of approach you are describing.

That is why NHS England has gone through its STP process, which is about bringing together all the commissioners, providers and local authorities in an area to look at our health economy and to ask how we work together to solve some of these fundamental questions. As I said, if we look at all the things we need to do to put the NHS on a financially stable footing, obviously there is the extra investment that the Government have put in; there is the financial reset, particularly for this year, that is about financial rigour and productivity; there is co-operation around the demand piece you described; and in the longer term, particularly as the population ages, there is the question of whether we can encourage healthier lifestyles with less smoking, for example. It is only going to be the combination of those four things that creates a financially stable position going forward.

Q56 **Karin Smyth:** The pressure on finance directors to behave in the way that they have been pressured to across the system this year—to drive down those costs and, particularly, to drive down provider costs—does not help with working collaboratively in a system as the STP—

***Chris Wormald:*** And we have to make some balances here. Parliament and others perfectly reasonably expect us to come in on a cash sum in-year, which requires a number of actions in-year, not all of which are fully compatible with what you might do in the medium term. Likewise, we want people to put themselves in a stable position in the medium term. Those are both perfectly reasonable objectives; they do not always lead you to the same measures, and our job is to balance them up.

Q57 **Chair:** I'm going to intervene because time is marching on. We need slightly quicker exchanges. While we are on this point, one of the other comments I got from a finance director was around the capital to revenue transfers: one said to me that they did not believe it met normal accounting procedures so they did not do it.

What Ms Smyth is driving at is that some of the pressure being put on was what Mr Williams described as a range of professional opinion. We have had some evidence from people suggesting that that was pushing them to a point where they, as accounting officers for their own organisations, were not happy.

***Chris Wormald:*** I can do no more than, again, say that the NAO, our auditor on this, gave us an unqualified set of accounts around all those measures.

Q58 **Chair:** But there is the pressure that Ms Smyth has been talking about.

***Chris Wormald:*** Can there be a tension between what you need to do to come in within the parliamentary control total in year and what you want to do to build sustainability long term? Yes, there can. Of course, those two things have to be balanced because they are both important. I am not denying the point at all. Do you want to add something on the capital to revenue?

***Andrew Baigent:*** Yes, I can add on the MHRA. On the capital to revenue point, we have been through in detail with the NAO the way that that was treated. We would not agree with the correspondents you have had that it was outwith normal accounting treatment.

**Chair:** They chose not to do what you suggested.

Q59 **Karin Smyth:** My question was about the future of how you work with the system and your relationship with these different bodies in order to plug the deficit. If you were running MHRA and there was a raid on your surplus, how would feel about responsible management of that organisation in future?

***Andrew Baigent:*** If I may talk about the MHRA for a minute.

**Chair:** We don't want you to go too much into that. We have the background on this.

***Andrew Baigent:*** The MHRA had built up a surplus of around £100 million over a number of years. We are required by managing public money to recall that if they have no plans to spend it. That was something that had been discussed between us and them for a number of months—indeed, we discussed it late on in the previous year—and that was actioned. I wouldn't accept that that was something that they were either unaware of or was not expected.

Q60 **Chair:** You would agree, Mr Baigent, that it was a one-off. You are not going to do it again.

***Andrew Baigent:*** Yes. That was absolutely a one-off.

Q61 **Chair:** That goes back to our concerns.

***Chris Wormald:*** On which there is no argument from us. The Auditor and we have discussed this and clearly, by their nature, you cannot go on doing one-off things, which is why all the other actions I have described about what we need to do going forward are important. I don't think there is a disagreement around these issues.

Q62 **Karin Smyth:** Mr Williams, are you concerned about the impact on future capital plans with the revenue to capital transfer?

***David Williams:*** Looking at 2015-16, for the most part the capital headroom was created by clawing back money where there had been overly optimistic plans on the level of spend, where projects themselves naturally were slipping and not proceeding at the pace that had been expected. In some cases, particularly in the central budget, it was through modest reprioritisation.

The impact of last year's capital revenue switches, in terms of the progress of the capital portfolio of the Health family, has been relatively low. Capital will remain tight for the next couple of years before we get into the second half of the spending review settlement. We need to be absolutely clear about how that spend is prioritised.

**Chair:** I'm going to bring in the Auditor and Comptroller General.

***Sir Amyas Morse:*** Very briefly, because I made the comments I wanted to make earlier. Yes, it is quite true, as the permanent secretary says, that these are unqualified accounts. It is also true that I have confidence and regard the Department of Health finance team as skilful and quite well able to manage what they are doing. However, it is worth pointing out that it is pretty unprecedented for us to write a Report like this. We did so because although we were not qualifying the accounts, we were seriously concerned. Of course it is normal for Departments to take whatever reasonable measures they can to try to ensure they come within the cash limits. Because of the nature of the cash limit regime, it can be a bit of a struggle and a scrabble at the end of the year. That is normal. We see that all the time. But that is a bit different from a very large exercise.

What we are really saying and absolutely want to make clear—I have heard with pleasure the commitment from the Department on this—is that there is another alternative, which is that you cannot meet your cash limits. If you actually do not have enough money to run the service, there is a limit to how many adjustments you can make. I know that the Department understands that. I will simply say that I note the commitments that the permanent secretary is making, and we shall look forward to seeing those carried out next year.

***Chris Wormald:*** There is not a disagreement between us, but I would point out that the requirement on me is to come in within my cash limit.

Q63 **Chair:** As well as us and the NAO, other parliamentarians and others will be looking at this closely. There is just one other point that came up in the accounts, which is the first time we have had a chance to ask you about it because it was released late in the Session. It was on the data that the shared business service did not pass on to NHS England. These were letters about patients that should have been sent back to NHS England and on to people's individual GPs in some cases. Which of you can give us an update on what has happened to that? Are there any risks to patient safety as a result?

***David Williams:*** I do not have a lot more to say today than the disclosure in our Government statement and the written ministerial statement that Health Ministers issued on the last day before the recess. We have taken this as a serious issue. The primary concern has been to understand the potential extent of safety issues for patients. NHS England established a clinical review team to run through those documents, and that process is now complete. Where there have been some concerns about the potential for harm, those records have been turned to the relevant GP for assessment and that process is still under way. I would prefer to wait for that process to finish before giving you a definitive update.

Q64 **Chair:** So do you have a timetable for that? People out there may be worried.

***David Williams:*** Well, it's under way now. I would expect us to be in a position to report back later this calendar year.

Q65 **Chair:** Before Christmas?

***Chris Wormald:*** Yes. We are obviously concerned about this and we understand why everybody else would be. Perhaps we should give you regular written updates when new information is available.

Q66 **Chair:** You could do that to us and to our sister Committee—to Sarah Wollaston, who is Chair of the Health Committee. One or other of us will ensure that we keep an eye on this. We are liaising on this.

***Chris Wormald:*** I think that would be appropriate in these circumstances.

Q67 **Chair:** Both Committees have an interest. We will ensure we do not duplicate, but we would like to know what is happening. You have it loud and clear from this Committee, Mr Wormald, that we were not happy—and nor is Parliament—that accounts were laid on the last day before the recess. It gives us no time to scrutinise them. We have expressed a strong view that that should not happen again and I hope you have taken that on board.

I want to turn to the issue around to the oft-repeated £10 billion, which the Secretary of State mentioned again as a solution to the NHS's problems. We have now published seven Reports this year and, for each of them, Simon Stevens or you or others in the health service have said, "It's all right. It will be resolved with the £10 billion and the Five Year Forward View." That money has been promised so often now that we know that there has to be a bigger debate—and I hope you acknowledge that—not just about these accounts, but about how the NHS can be sustainably funded over time. Would you agree with that view?

***Chris Wormald:*** I hope that what I have set out—I think three times during this hearing—is that clearly just the additional investment is not the entire answer. It requires the four parts that I described. It requires the extra investment, the financial reset—

Q68 **Chair:** But my point is, is that extra investment enough? Is the £10 billion enough? What we are seeing from this side of the table is that it is not.

***Chris Wormald:*** We, as I said, believe that the Five Year Forward View and the mandate on which it delivered is deliverable for the spending review settlement, but that is clearly a challenge. It requires all the actions I have described in these hearings and for them to be delivered. I am sure you will hold us to account for that.

Q69 **Chair:** Mr Simon Stevens is in front of us next week, so we will relay to him your confidence that the NHS mandate will be deliverable by then.

***Chris Wormald:*** I am trying to give an honest opinion here. I am not denying that it is a huge challenge and that we have to demonstrate delivery across all the four elements that I described to get to the position that we want to get to. Yes, it is a challenge. We think it is an achievable challenge, and we expect to be held to account for that.

Q70 **Chair:** It is not just a financial challenge; it is about demand on the NHS, which is going up faster than the amount of money going into its budget.

***Chris Wormald:*** Of course, at that level, the challenges of the NHS are no different from the challenges of every single health service in the western world.

Q71 **Chair:** We are talking about our health service today, Mr Wormald.

***Chris Wormald:*** As I say, the big challenge that faces all those health services, including us, is how we transform services with the extra public investment that the Government has made to be able, first, to cope with that demand; secondly, to ensure that where people are better treated in the community than in expensive acute resources, they are treated in the community; and, thirdly, to diminish the demands on the health system in the long term by improving public health. That is the challenge of all health services, including the NHS, and that is our challenge.

Q72 **Chair:** We on this Committee are keen that our health service survives in good shape. We are very concerned that these accounts are just a symptom of the financial concern in the NHS. As you know, we will be having you as a regular visitor to this Committee, Mr Wormald.

***Chris Wormald:*** I would expect no less. Indeed, I am coming back in about a minute.

**Chair:** We have one final, very quick point on a constituency matter from Mr Stephen Phillips. We will then move on to our next panel.

Q73 **Stephen Phillips:** Mr Wormald, are you aware of the overnight closure of the A&E at Grantham hospital?

***Chris Wormald:*** I am aware of these issues.

Q74 **Stephen Phillips:** It is not in my constituency—it is in Mr Boles's constituency—but obviously it is used by my constituents. ULHT, which is the trust, has said that it is a staffing problem and not a money problem. I want your assurance that the Department is on top of this and giving as much assistance as possible to the trust.

***Chris Wormald:*** As you know, NHSI deals with those issues. It is always on top of them, and I am quite happy to write to you with an update from NHSI on the exact position.

Q75 **Stephen Phillips:** That would be very helpful. We know that the Department and the Secretary of State are still ultimately responsible for the health service, so it is to you that I look to get on top of this issue.

***Chris Wormald:*** As I say, NHSI is charged with the management of those issues. Of course, the Department is responsible for oversight of the whole system, which is why I will go away and consult NHSI on exactly what the issue is and come back to you.

Q76 **Stephen Phillips:** If you could write to me and perhaps copy it to Mr Boles, that would be very helpful so that we know what the Department is doing.

***Chris Wormald:*** I would be delighted.

**Chair:** Thank you very much, Mr Wormald. I think you are staying, but your colleagues have been let off for now.

***Chris Wormald:*** I am getting some reinforcements.

**Chair:** Thank you very much indeed for coming. As I say, we are looking at this with our sister Committee, the Health Committee, to make sure that we keep an eye on the accounts throughout the year.

## Examination of witnesses

Witnesses: Melanie Dawes CB, Colin Molton, Stephen Lovegrove, Chris Wormald and Philip Rutnam.

**Chair:** Good afternoon everybody and welcome to the main session of the Public Accounts Committee on Wednesday 7 September 2016. This session will be looking at the Progress Report on the disposal of public land for new homes. As those who have been following this matter will know, we had a first hearing on it in July last year, when we were a very new Committee. We were then looking at the last programme over the last Parliament. We have been closely watching the reiteration of the programme for this Parliament, and we are obviously one year in. We are hoping to have an open and honest discussion.

Ms Dawes, I think we would acknowledge that you and your Department have done a good job of beginning to pull together what was previously a bit of a scattered approach into something that has more coherence. We are actually able to see a way through and monitor what is happening, which is our role. We want to see that these homes are built. We have still got some concerns and we also want to ensure that we are able to continue to monitor it, so information from you is going to be very important, which we will touch on.

I would note that, interestingly just before this hearing, the Department for Transport released information about Network Rail releasing some land and the Ministry of Defence produced a press release about some land releases. It is great to have good news before a hearing. Of course, we haven't had a chance to validate it. It would be helpful, if you are planning to release exciting news ahead of a hearing, if we had it a bit earlier so that we can have a closer look at it. To get it the day before may be great for your own purposes, but it is not so useful for ours.

If necessary, we will come back and revisit that at a recall session, if we feel there is more to look into. Just to warn both permanent secretaries that that might be your fate if, when we have gone through it, there are some interesting facts in there. Over to Anne-Marie Trevelyan, who is leading for us today on this issue.

Q77 **Mrs Trevelyan:** As the Chair says, it is encouraging to see that the Department has grabbed together the various disparate parts. Without a doubt, building homes that are affordable in the right places is something that my constituents probably worry about more than anything else—other than perhaps potholes. This is a really important programme as far as we are concerned.

The initial concern is that, now we are into the second programme, it is getting harder for Departments to find obvious land disposals. You have created a guidance booklet to help them understand what it is that the Department needs to see. I am a bit confused that a year in, there does not seem to be a finalised version of that.

There is nothing published, so I am concerned it might be difficult—I will ask the others about this—to know that they are working from a clear set of guidance that you are not going to change as the programme goes through to make it more difficult for them. Is there a reason why it has not been published yet?

***Melanie Dawes:*** Thank you for your comments on the improvements we've made. We have sought very much to pick up all the recommendations from this Committee and the NAO in setting up the new programme. If I may, I want to give you some information at the beginning about monitoring, because I know that has been a real concern. I am glad to say that our Ministers have prioritised this for decision as new Ministers in the Department, and they are asking us to monitor the building of homes right through the planning system on all our sites, in the new programme and the old programme. I hope that will be something that you will be pleased to hear.

Q78 **Chair:** Can you tell us how you will release that and how we will be able to follow that through?

***Melanie Dawes:*** In the case of the new programme, we are collecting all the data we need from Departments already, so we should be able to release that along the way quite straightforwardly. We have not yet agreed publication schedules and timing and so on, but we would expect to do that relatively straightforwardly. On the old programme, as you remember, there are issues of data gaps, so we have got to work out how to do that, but we are committed to doing it.

Q79 **Chair:** Okay. When will you have the publication schedule?

***Melanie Dawes:*** Coming on to the handbook and the publication of that—or would you like me to say more about the monitoring specifically?

**Chair:** About the monitoring—when you will know the dates.

***Melanie Dawes:*** I haven't got a date yet and probably ought not to predict one today, given that I was not very successful in predicting the date of our publication last time. I am sorry about that. I would expect us to say more about the monitoring very shortly. We are hoping to get the handbook out shortly and it will need to be part of the release of the handbook.

**Chair:** I think you are one of our most frequent flyers between now and Christmas, so I am sure we will keep on it.

***Melanie Dawes:*** Yes, I think I am. On the question of the handbook, to answer your specific question, the handbook was ready in draft for Departments in December and then we revised it in April. It is what we sometimes call in Government a living document.

We are at the same time seeing the Cabinet Office, for example, revising their guidance on the disposal of surplus property in Government, and that is expected quite soon. What we are trying to do with the handbook is not to keep changing the rules. All the important points about who is in charge of what, what the data reporting needs to be and so on are not changing.

Equally, sometimes we do need to adapt what we are asking Departments to do as wider circumstances change. For example, the monitoring is a new element that we are introducing. It isn't that this is moving around a lot. I think we have provided certainty for Departments. This has been used actively by the programme now for eight or nine months. It just hasn't got to the publication state yet. We have been ready for a while, but it has been subject to some of the uncertainties in Government in recent months. It is now a priority for us to get it out soon.

Q80 **Mrs Trevelyan:** That is really helpful. Mr Lovegrove and Mr Rutnam, you have fairly chunky figures to meet. Have you found that adequate? My concern is always that if the goalposts keep moving, the datasets are going to be difficult to rely on when we get to 2020—if, a year in, only tiny numbers have been met so far. In fact, DCLG is doing the best with 12%, but the Ministry of Defence is at 1.5% and Transport is so far at 0.2% of its target. Do you feel you have what you need and that you are not going to have the goalposts changed on you? Otherwise, we are not going to make the sort of progress we want to see.

***Philip Rutnam:*** We are much happier with the governance of the programme, as per the comments that have already been made. We think that the guidance that has been provided with CLG and the working relationships that have been established between, in my case, my Department, Network Rail and the Homes and Communities Agency are all very positive. Things will continue to develop, as per Ms Dawes's comment about the monitoring of the number of houses completed, but fundamentally we think that some very significant steps have been made in the right direction in terms of establishing a more rigorous, consistent, transparent and clearer set of arrangements for running the programme.

Q81 **Mrs Trevelyan:** That is helpful. While you are there now and looking at those numbers, do you see the Department for Transport's commitment to this programme coming in at the end? Why is it so small so far? Where can you see the challenges?

***Philip Rutnam:*** I shall comment on the numbers as well as the general point. The programme is an ambitious one. We have been set a target that for the Department for Transport represents a roughly ninefold increase on the target we had for the 2010 to 2015 period.

Q82 **Mrs Trevelyan:** But you have agreed to that capacity of 38,000.

***Philip Rutnam:*** We have accepted that target, which was set as part of the spending review 2015 outcome. Of course the Department has accepted that, alongside all the other constraints and objectives set in the SR outcome, but it is an ambitious and challenging programme. There is a reason why it is perhaps not that surprising that, numerically, the programme has got off to a relatively slow start: we have been establishing the governance arrangements, as we have just discussed.

A significant gearing up of effort has been under way, in both the DFT and Network Rail, which accounts for the great bulk of our 38,000 target. I am pleased to say that already, even since the dates in the NAO Report, significant further progress has been made. The data in the Report—the 0.2% that you mentioned—was as at the end of March 2016. Already, I can report that by the end of June—I accept that this has not been audited by the NAO, but none the less—we had moved from 71 units to 540-something units having been scored by the HCA. A further 1,250 or so are awaiting acceptance by the HCA. So, significant further progress is being made, but it is an ambitious and challenging programme.

Q83 **Mrs Trevelyan:** Mr Lovegrove, you also have a big chunk of this challenge.

***Stephen Lovegrove:*** I do.

**Mrs Trevelyan:** Do you feel that you have the rigour from a data-collecting point of view and that you are going to be able to crack on? In March, you were 1.5% towards your target; again, that is a slow start 20% of the way in.

***Stephen Lovegrove:*** Yes, indeed. I would very much echo what Mr Rutnam just said. It is a relatively slow start. I should say that the Ministry of Defence had a very big target in the previous Parliament. The experience of that was that there was a very rapid acceleration towards the very end. In fact, I think that a good 40% or so was achieved in the last year of the Parliament.

I hope that we will not find ourselves in a position quite like that this time around. If things go well, we are already up at 86% that we think will have been achieved by the penultimate year of this Parliament, so you've got only 14% to go in the last year. In one sense, that is encouraging. If I am to be absolutely honest, which obviously I will be, for me the issue is more about not just finding numbers that add up to 100% by 2020, but decreasing the risk associated with a lot of that 100%.

The question of how much buffer we have to put in over 100% in order to be able to come down to 100% is very live for us at the moment. We are having a bigger look at the reserve estate and we are looking at the training estate. It would probably be unwise for us to say, "Right, okay. Downhill with a fair wind behind us, we are going to be able to get to 55,000 homes so we can stop there and stop trying." That would be unwise and we will not be doing that.

Over the course of the Parliament, we will clearly be able to judge how much we are going to be able to bring that risk down. At the moment, I think it is about 50% of our 47,000 sites that are in the high-risk category. We are aiming to get that down through mitigating actions to 17%, but that is still 17% and it is also not no risk; it is just not high risk. There is quite a way to go there.

Q84 **Mrs Trevelyan:** Thank you; that is a very fair answer. Ms Dawes, my first question says "despite your not monitoring", so I am very pleased that I do not need to ask that question because you have solved that.

In terms of keeping track from the point of view of the outside world, we had the problem with the first scheme of whether the houses would be built by 2020—I have no doubt it will not be all of them. How are you going to be able to monitor it? Is each accounting officer also responsible effectively for driving through that house building, or does that remain with you? In that case, how do you drive that forward to ensure that things do not get stuck in planning, land banks and all those problems that we saw earlier on?

***Melanie Dawes:*** Once a site is sold, our general presumption will be that our role is over. We will monitor what goes on because that is very important for transparency and for you and everyone to understand the overall impact of the programme.

Our ultimate aim for all housing programmes is to get homes built. What we then do is have a large sites programme and, across the country, we and the HCA look at the big important sites where we think that we could and should intervene from central Government to make a difference. Some of those are former public sector land sites—quite a lot of them actually, because they tend to be big and they are often the hardest to move forward. There are also some private sector land sites.

We won't have an approach of always following through if a site is stuck. We will be monitoring that so that we have got transparency, but we will be relying on the contracts that we struck at the point of sale and the certainty that we sought that a site has genuinely gone far enough through the system for us to rely on it in our programme.

We will also, in some cases, be relying on conditional clauses and so on that are part of the contracts themselves. We won't be expecting routinely to be checking and moving sites forward just because they were public sector land programmes, though we might be on some of these sites.

Q85 **Mr Bacon:** At the point of sale, you generally presume that your role is over. Government policy is that there should be 1 million homes built in the next five years. That's policy. It is not questioning policy just to state it.

So far, we are way, way under that. We are by a country mile under it—by 100,000 houses a year at least under it. It would seem to me that, in order to deliver Government policy, a slightly more proactive philosophy generally might be warranted.

When your DCLG Secretary of State predecessor, Mr Clark, a former member of this Committee, announced that the Government was directly commissioning the building of 13,000 houses, I bumped into him in the Lobby on the very day and said, "Greg, this is fantastic. It is an explicit admission that the supply of houses does not rise to meet demand." He said, "Yes."

You carefully calibrated it and said it is not always the case, but why is it right for you to presume that at the moment of sale your role should generally stop? Why is that, when Government policy is to build 200,000 houses a year and we are nowhere near it?

***Melanie Dawes:*** Mr Bacon, we agree with you that the market does not always work and that is why we are intervening in a number of ways, whether that is through finance, loans and guarantees, or as you have referred to on some of our former or still existing Homes and Communities Agency sites, we are directly commissioning. That is quite a new intervention for Government to be taking.

We are intervening directly to build new parts of the market such as custom-build, self-build and so on, as well. We have quite a big range of housing policies in quite a diverse way. What I am saying is that we do have data that show broadly what the timeline is for different sizes of sites and how quickly they move through to development.

Generally speaking, we will be relying on the market to push things through. After all, developers have paid a premium for a site that either has planning permission or is in a local plan. They have got an incentive to build it out, but through our large sites programme we look at where we think things are stuck. We have got more proactive on those sites in recent years and we have also expanded the number of sites and moved down towards more medium-sized sites. Some of that may well mean that we are intervening in more of these public sector land sites, but it is a judgment call.

In the end, the local planning system—with local authorities, developers and builders—will do the vast majority of the work here, if we get the land into the system. That is one of the big blockers in the market. That does not mean that we are complacent about the market always being absolutely fine every time we have sold a site. Sometimes we will be intervening quite actively.

Q86 **Mrs Trevelyan:** Just as part of this monitoring of the building of the homes themselves—it is an encouraging set of statistics—could you give us an update on the 100,000 from the first programme? Do we know the numbers that have been built of that 100,000?

***Melanie Dawes:*** We do not yet have the data. We will, and I look forward to being able to give you fuller responses on that in the future. I can give you the latest number for the Homes and Communities Agency. If you remember, we gave that to you last year. We had a figure last year in July of 6,191 starts out of a total aim for the HCA of 20,930 from the land it had sold. Of those 6,191, 2,000 had been completed. The figure now is 9,564 starts, of which 4,153 have been completed. We have got double the number of completions on those sites. They are moving their way forward. Some 20% of the homes have been built.

Q87 **Mrs Trevelyan:** That is a very slow building of homes.

***Melanie Dawes:*** That is the nature of some of these sites. Some of them are quite large, and the build-out—that is the phrase I have used sometimes—tends to be quite slow. I have got that data for you.

Q88 **Mr Bacon:** Why do you think that is, when there is such an unmet demand for houses and the price of houses keeps on going up due to a shortage of supply? Why do you think, in those circumstances, the build-out rate is so slow?

***Melanie Dawes:*** You have asked a big question about the nature of the housing market.

Q89 **Mr Bacon:** I have, and I am looking for a big answer. Why do you think that is the case? Looking at the ceiling does not really help me.

***Melanie Dawes:*** The first gap in the market is the lack of land, which this programme aims to make a contribution to. We then know that there are issues with lack of finance. Sometimes it can take time for developers to find the finance to do the infrastructure they need up front. We have intervened considerably in recent years to expand the range of financial instruments we are deploying there, including with loans on site, and that is having quite a big impact in speeding things up.

What it means is that even on quite large sites—you may be familiar with some of them; I can think of some that I have visited recently in the east midlands—the developer, because we have given them a loan, has had the cash up front to build the roads and to start to get the schools moving and so on. They are then able to build the homes at the pace that the local market wants, rather than having to wait until they have got enough money for the next round of infrastructure investment, because we have sorted that out for them up front. That is an example of a gap in the market that we are aiming to fix and are quite successfully fixing.

A further problem is that, as you know, there is a shortage of supply in the industry. There are not enough builders in the market. We are always challenging the developers and the builders as to whether they are really pushing fast enough or whether they are just protecting their margins and building out too slowly. We have had conversations with the Home Builders Federation in recent months.

Our former Ministers secured commitments to slightly higher rates of build-out than had previously been declared. My analysis is that we have to push on a number of different fronts here. We have not been building enough homes for many years. Even if we put enough land and planning permissions into the system, the market is not going to suddenly be there to build the homes overnight.

Q90 **Mr Bacon:** You have given all the classic answers. I wrote them down: land, finance and planning. Those answers are typically the ones that are given. There are always difficulties with all three, so none of that surprised me. In fact, I wrote down part of your answer before you gave it. The curious thing is that although we have a shortage of houses, we do not have a shortage of green corduroy trousers or tables or chairs or other things we need. We don’t have a “help to sit” programme financed by the Government to make sure that we have enough chairs. And yet, if you want to manufacture chairs, you need a factory, you need land, you need finance and you need planning permission. Somehow, by some miracle, I suppose, we have enough tables and chairs. We have enough green corduroy trousers. What is the difference? Why don’t we have enough houses? Why doesn’t the supply of houses rise to meet the demand?

***Melanie Dawes:*** I have given you some elements of the answer. We don’t have enough land coming into the system quick enough. Some people would say the planning system is still too slow. We have tried to speed it up—

Q91 **Mr Bacon:** But that doesn’t prevent us having enough green corduroy trousers, does it? We don’t have enough land in the system. That doesn’t prevent us having just the number of factories we need on land financed with planning permission to manufacture the tables and chairs or green corduroy trousers or whatever else it is—carpets.

**Chair:** Do you manufacture anything?

**Mr Bacon:** Yes, we manufacture a lot. We manufacture cars in South Norfolk.

**Chair:** Okay, never mind!

**Mr Bacon:** My point is that all these considerations that you've mentioned also apply to other things, and yet we don't have a shortage of those other things, so why do we have a shortage of housing?

**Chair:** One last go, Ms Dawes, and then we will move on.

***Melanie Dawes:*** In order to manufacture green corduroy trousers, you don't need to go to your local authority to find scarce land in order to—

Q92 **Mr Bacon:** You need planning permission to build the factory, sure you do. So what is the difference?

***Melanie Dawes:*** The difference is the supply of land, the complexity of the planning system, the fact that for many years we have not been building enough, which means that the market has shrunk and consolidated—all of these things need tackling together and it is a very big challenge. I agree with you. I think we are in agreement, Mr Bacon.

Q93 **Mr Bacon:** All of those answers also apply to any factory that you might want to site in order to develop or manufacture something. There is no difference. There is a difference, of course, and you have not mentioned this at all. You did mention the Home Builders Federation, with perhaps not the wide-eyed astonishment that one hears from some officials and politicians—there does appear quite often to be a wide-eyed astonishment with house builders. You have talked to them about asking them to build faster. But they are a private sector player; they act in a profit-maximising way. There seems to be a wide-eyed astonishment that they would do that. Of course they are going to do that. Their interest is not actually maximising the quantity of product, is it? It is maximising the profit, so they will build when and only when it is sufficiently profitable for them to do so. That is the difference and there aren't sufficient other choices, are there? There is essentially an oligopoly. That is the difference, really, isn't it? You are shaking your head.

***Melanie Dawes:*** I am shaking my head because—

**Chair:** It is quite a big question to absorb.

***Melanie Dawes:*** I think we are in agreement that there are big problems in the housing market, in the way it works. In the end, the supply of land and the supply from other parts of the supply chain that are needed to build homes are constrained in a way that doesn't happen in other markets. That is the root of the problem. There are lots of reasons for that. Once a market has been constrained like that, you start to find the finance, the builders and the employees are not there in the industry as well, so it is very hard to suddenly recreate it overnight.

I don't disagree with your analysis that the housing market is different and that is why it isn't meeting demand at the moment. That is a big challenge. This programme is one of the things we are doing to try and tackle it; it is not the only one.

**Chair:** Clearly we need a PAC housing summit to get into these more philosophical questions, but I am going to move things along.

Q94 **Mrs Trevelyan:** I would agree with Mr Bacon, and I think you do too, that the builders' ability to maintain their margins and therefore build more slowly is a very real drag on build in these markets. Is that something that the Department is looking at? Is it considering whether the land disposal deals, which hopefully will come with at least outline planning, might indicate that, as it is public land that is going into the system, there is an expectation that they should be built in a prompt fashion? Is it also looking at the mix of accommodation that will be built on what was public land? Is that something that this programme is going to tackle, to ensure we get that?

***Melanie Dawes:*** We do not seek through this programme to, and we don't ask Departments to, impose any conditions, such as types of home or particular speed of delivery, as a general rule. If we did that, we would almost certainly reduce the return that we are getting from the asset that we are selling into the market. There could well be perfectly good policy reasons why one might want to do that, but that is not part of our approach in this programme. Instead we tackle issues, such as the need for affordable homes, through other means—national planning policies and ultimately through local authority decision making as well. So that isn't part of the programme this time in the way that it wasn't last time either.

Q95 **Mrs Trevelyan:** Will you be monitoring the type of accommodation that is going to be built? Will we know if we end up with 160,000 four-bed executive homes starting at £250,000, or will we have some nurses' housing built on a piece of former NHS land? Are we going to have a picture of that from your monitoring?

***Melanie Dawes:*** We need to look into that. At the moment, we are not expecting to give a lot of detail on the precise type of home, particularly because what often happens is that the affordable housing, especially in very high-price areas of the country, is delivered on other sites, so you have to be quite careful about the data. We are looking at these issues, but we are not currently expecting to include in our monitoring data the nature of the homes that are built. It'll be the overall number.

Q96 **Chair:** Is that size? Tenure?

***Melanie Dawes:*** Yes: size, tenure, number of bedrooms, affordable or non-affordable. We are currently expecting to be able to report on the number, but we haven't yet gone into the detail of that. We will be doing so.

***Stephen Lovegrove:*** I can give an example of that. As you know, we sold the old War Office for, I think, £357 million. Theoretically, 100 dwellings were going to be located in it. It turns out that the developer is likely to put only 90 in there, so there is a shortfall of 10. It is rather unlikely that any of those 90—or, indeed, any of those 100—were ever going to be affordable housing. The developer is currently discussing with Westminster City Council what the provision of affordable housing in another part of the borough is going to be. I'm not privy to those discussions and I don't know when they are going to end, but there is quite an involved process of making sure that the offsets, as it were, are appropriate for the local needs.

Q97 **Mrs Trevelyan:** So the programme will in fact be at the mercy of the local plan, in whichever area it is, driving forwards the balance of affordable homes and other non-executive home types of building, which obviously comes under your remit in a way but not within this programme itself.

***Melanie Dawes:*** We will be relying on the local authority role in local plans and then in individual planning decisions in the normal way, yes—subject, of course, to national guidelines and policies as well.

Q98 **Chair:** When we were discussing this in preparation, one of the things we talked about was the fact that there can sometimes be other dividends, not just financial, which Anne-Marie is going to come to in a moment.

Mr Wormald, you have had a little rest, so we will come to you. For the Department of Health there are many, many issues, but the one I want to ask about first is: you have a recruitment crisis, and there is a really big issue, particularly in high-cost areas such as London, with nurses—even consultants now—finding it hard to afford somewhere to live. If land is sold, a dividend is that some of it might be available for health workers. Given the fact that the aim of the programme is to get a certain number of homes, rather than a certain amount of money into the Exchequer, is that something you are able to factor in when you are looking at this, and are you?

***Chris Wormald:*** We don't, but the people who own the land do. We are different from the other Departments represented here: as usual with the NHS, it is much more complicated. The vast majority of the land is owned by individual hospitals. The individual sales are made by those hospitals and they keep the proceeds, so it is not a nationally run programme.

Q99 **Chair:** Do you have any guidance for that?

***Chris Wormald:*** Yes, we issue guidance to the system. We try to create a framework of incentives, whereby people are releasing surplus land, and we have advisers who go around every trust and talk to them about their estates plans. In the end, though, it is up to the individual trust to decide whether it wants to do the kind of thing you are describing. They do do it, though—we have examples.

Q100 **Chair:** Nevertheless, there is problem with guidance as well for you. My local example would be of Barts. It is not exactly out of the woods now, but when it was going through its particular crisis relating to Whipps Cross, we local east London MPs asked the non-exec directors and leaders of Barts what they were doing with some of the sales of land in areas right in central London, and what housing they were providing for key health workers. They said, "It's nothing to do with us. Housing is not our responsibility." We were pretty shocked by that attitude.

***Chris Wormald:*** Well, under the system we run, it is a decision for them. As I say, when an NHS trust sells land it gets to keep the receipt. That is the great incentive to release surplus land. It is also up to it what, if any, conditions it wants to place on the sale. As I say, individual trusts do that. This is an issue we are looking at further, for the reasons that you say—

Q101 **Chair:** When you set provider budgets, as we have discussed many times in this Committee, the budget comes down from the Department. The trust sets its budget to meet what has come down, and it starts off with a shortfall of staff to meet demand, because that is the way the model has unfortunately been "working" over recent years. The very big incentive on those trusts is to maximise the capital receipt and perhaps use it to plug holes elsewhere in the budget, although obviously not on the revenue side—well, under some of the funny accounting that has been taking place, maybe they can. Let us not go back over old ground. The long-term benefit to them of having homes for local staff would be—

***Chris Wormald:*** I completely agree with you. As I say, we have examples of trusts that do that. We will look further at whether trusts should be doing more and how we might support them to do so. The way we are working this is that we have our existing programme, which is doing okay—I think it is about 12% of our sales at the moment—and we have our normal pipeline. We are also reviewing what we need to do in the future. Sir Robert Naylor has been taken on as the Department's adviser on estates. As you know, he is a very eminent London chief exec who is very up on all these issues. Later in the autumn, he will be coming back to us on how we should be working with the NHS estate overall—not just on the sales question, but on how people manage their estate, on some of the issues you are raising and on the system's capacity and capability to manage its estate.

Q102 **Mr Bacon:** Therein lies an important rub. Sir Robert Naylor is a visionary leader, but what do you do where you have trusts, which you say have the decision-making power themselves, that are led by people who are purblind and mind-blowingly unimaginative, who, almost certainly the day after selling the land, are the same people who will come bitching to your Department that they can't get staff because staff locally can't find anywhere to live? What do you do when you are faced with such people?

***Chris Wormald:*** I am not going to recognise that description of the NHS. However—this is one of the things he will be looking at—because of the pattern of land ownership, we will of course have some quite small trusts that might well be doing one-off deals. They will not, as a rule, have the capacity and capability to do it in the best way because they are doing it only once. You would expect a very big London trust to have a capability in land—

Q103 **Mr Bacon:** Do you have, or are you thinking of evolving, a professional estates capacity that can go out on a consultancy basis to help them do this better? Is that what you are saying?

***Chris Wormald:*** We do a bit of that already, because the advisers we contract with have been around every trust—there have been 12 of them.

We will see what Sir Robert recommends, but this is one of the key issues he is looking at, although not for the reasons that you described at the beginning.

**Mr Bacon:** Not using quite the colourful adjectives.

***Chris Wormald:*** The thrust of your question is, is there the capability in the system to do this? Well, not universally. Colin can probably describe some of the solutions that some of the trusts have used. They include handing the land sale over to the HCA or to NHS Property Services when they don't have the capability themselves. Maybe Colin can describe examples of that.

***Colin Molton:*** We have examples of where we have worked with NHS trusts and ambulance trusts, etc. In Bristol, which we have taken over from the South West Ambulance Trust, they didn't have the capability to deal with the site themselves. We paid a value for that and entered into arrangements where we shared the uplift in value, and that has been a very successful project. We worked very closely with the local authority in that case, and we are now in contract with Bouygues, and there will be a substantial uplift in value as a result of that. We use our professional capability to assist trusts, as well as other—

Q104 **Mr Bacon:** Mr Molton, it is not only about the maximum uplift, is it? There is a whole series of policy issues that affect wider value for money. We have been talking about health workers, but rural high schools complain that they cannot get staff in rural areas. The counties have lots of land. It wouldn't be that difficult to see how you can put the two together and get a high-value result that would be good for public policy.

***Colin Molton:*** There are quite a few examples where we are working with local authorities to agree the mix of development on sites. That is quite common. For example, on Blackberry Hill—another Bristol example—the local authority wants to see housing for older people on that site. We can accommodate that as part of the mix, but that is more of a planning issue, to bring a planning brief with the local authority, and then we can secure that outcome by working together.

***Chris Wormald:*** There are some swings and roundabouts, and there are some very obvious advantages, including in the disposal of surplus assets, for hospitals controlling their own estates and, where they release land, being able to reinvest that in local health services—I think that is what most people expect—and dealing with that as an institutional thing. Exactly as you say, there are some big advantages in looking across the piece. This is one reason why we wanted Sir Robert to do his work and why his work is not specifically about land sales; it is about estates, property and the strategic use of the health estate. That is partly for health reasons and for some of the reasons we were debating in the previous hearing. We need a different type of estate to be able to deliver the health that we want.

Partly it is for cash generation reasons, and partly it is contributions to this programme. We are in the business of balancing up those particular objectives and trying to get the benefits of local management that I am describing and the benefits that you and Colin were discussing.

**Chair:** We are going to come back to some of these issues at the end, if we have time. Did Karin Smyth want to come in on this point?

Q105 **Karin Smyth:** It is good to hear about some of that cross-working. I shudder a little bit at the mention of the involvement of NHS Property Services in this, but I am hoping to meet them soon.

***Chris Wormald:*** The vast majority of land is owned by individual trusts.

Q106 **Karin Smyth:** We will need to realise how they work. My question goes back to the issue of high risk, because 45% of sites in the Department of Health are high risk, which is in figure 8. You mentioned Blackberry Hill in Bristol. Part of my scepticism about our local STP is the fact that we have already released a lot of land. A lot of those sites—the 45%—will be selling things to meet the requirements within the STP over the next few years. If you look at the timeline for the STPs, they might be submitted in October and agreed in January-ish next year. You then start the negotiation later to close a hospital site with a local community. You might get that through in a year, which takes us to the beginning of 2018-19 to then start selling the land by the end of the year. Do you see where I am going with this question about high risk?

***Chris Wormald:*** Yes.

Q107 **Karin Smyth:** The timeline is dependent on releasing land to meet the requirements of the STP. The timeline is extremely tight for that 45% to backload it to 2020, if it is all agreed.

***Chris Wormald:*** I completely see where you are going, and we are not reliant on that process to hit our targets. We have a target of 26,000 units—I'll do this in housing units. As of 30 June, we were at 3,167, which is 12% of our target, which is okay. Obviously, we would rather be at 20%. Our pipeline is 21,330, including the sales, which means we need to identify over 5,000, because there will be some drop-out. We are looking at a further 11,000 potential units that are not yet in the pipeline, which takes us over 26,000. Clearly, what we will need to do because of high-risk sites, as others do, is identify more potential than necessary to hit our target.

However, for exactly the reasons you have been saying, we want this to be a rolling process of the health service looking at what estate it needs going forward for health reasons. As well as fulfilling the needs of this programme and getting some cash, we want the right estate to deliver health. That again is one reason why, even though our numbers were quite encouraging, we wanted Robert to look at how we did this overall. We are trying to achieve something quite complicated here, which is to both serve the needs of my colleague in releasing land, but also end up with the health estates that we actually need, which is a very complicated thing. The numbers look quite good, but they are not enough for us; I think that is the summary.

Q108 **Mrs Trevelyan:** On a technical matter, paragraph 2.12 defines what housing would consist of in terms of what land disposal would be acceptable. One of them is "an Annington's home previously leased to the Ministry of Defence and sold to the market". I am a bit confused at how one can sell something as a disposal when one does not own it any more. We sold all those houses off in 1996. I wonder if you could explain the logic of having that in there as an acceptable thing to sell. It also does not create a new house, because the house is already there.

***Stephen Lovegrove:*** That's true, although it may have been standing void—

Q109 **Mrs Trevelyan:** That is a relevant issue for the MOD, to be fair, but that does not give me a new house for someone else to move into.

***Stephen Lovegrove:*** The situation with the sale is that in 1999 Annington Homes bought a 999-year lease on those homes. The MOD then bought back a 200-year lease from Annington Homes, which is now owned by Terra Firma. The arrangement for houses being deemed surplus and then handed back to Annington either to sell into the market or being retained by us to be sublet, effectively, is I think where you are going. On the conversations between DCLG and my team on exactly how they would score, I'm afraid I do not have full details. Possibly Ms Dawes has. I am happy to get back to you with further details if that is helpful.

***Melanie Dawes:*** We had a lot of discussions as we set the targets last autumn about what should be included and what should not be included. Our Ministers looked at a number of different suggestions from Departments, some very imaginative, that they decided were not in the spirit of the programme, but, in this case, they decided that because it is releasing housing back into the private market, it should score. In the last programme overall this was around 2.5% of MOD's overall number of homes, so it wasn't a very large proportion. I don't know what it is in this programme, but we have been very transparent. This is included and there were reasons that were discussed as to why. I have just explained them, but that was a decision that was taken about including them.

***Stephen Lovegrove:*** In this programme, of the 47,240 that we have so far identified, I believe around 3,000 of those fall into this category.

Q110 **Chair:** I think we may have asked before, but why are care homes included?

***Melanie Dawes:*** Again, because that is a need that the country has. This is residential accommodation for particular groups of people, and it is often what local authorities want; there is a shortage of it. This is residential accommodation for people to live in so it is something that we felt was contributing.

**Chair:** I think we were a bit surprised that there was a shortage of care homes.

Q111 **Mrs Trevelyan:** There is massive excess capacity in the north-east, that is for sure. It is not necessarily a bad thing to have in your choice of things, but I would disagree with you that we have a shortage of care home space.

***Melanie Dawes:*** Well, in the end this is still residential property, so that was why it was decided it should be included. I don't have figures on the percentages here, but that will depend on local authority planning decisions.

***Chris Wormald:*** I am quite happy to go away and check the stats, but, from memory, it is variable across the country. In London, it is quite short, but I am happy to check. I am sure the Department has some information.

Q112 **Mrs Trevelyan:** Coming back to Annington Homes as part of the wider question about value for money, Mr Lovegrove, if you are handing properties that are under your leasehold control back to Annington Homes, is there not an agreement that you have to put them back to their original condition, so there is probably going to be a relative cost for the MOD to invest in those homes before they can get back into the system under Annington's sale process? In that case, how are you as the accounting officer ensuring that your value-for-money calculations work? Or would it not be better to keep those, as you have a 200-year lease invested in them, and simply use them within the MOD?

***Stephen Lovegrove:*** That is a very good question. It is one that we are thinking about hard at the moment.

Q113 **Mrs Trevelyan:** But you have put them in already, so have you not thought it through?

***Stephen Lovegrove:*** Not all of them have gone in like that. We do have quite a reasonable number of voids at the moment, many of which are there to accommodate the troops returning from Germany, so it is higher than it would be normally. You are right to say that there is a remediation cost that we by and large have to pay to be able to get the homes at the appropriate standard for Annington to take them back. That has come out on average, from memory, at about £14,000 or so. So there is a value-for-money question that needs to be addressed there. It is within the context of the beginnings of the—I hesitate to use the word "renegotiation", but certainly looking again at the Annington Homes deal.

The homes that we have from Annington are given to us on—not given to us. They are provided to us on a discounted basis and the basis of that discount needs to be revised in 2020. I have started conversations with representatives of Terra Firma personally to make sure that we end up with the right shape of deal as a result of that negotiation, to the extent that we possibly can, because there is quite a lot of housing stock in the Annington estate effectively, which I am not wholly convinced is being used to the best advantage of our troops or indeed the wider homeowning public. But there are quite a lot of moving parts in the Annington situation, made more so by this upcoming 2020 renegotiation.

Q114 **Chair:** The Comptroller and Auditor General has a question.

***Sir Amyas Morse:*** I have come across Terra Firma before. Do they have a continuing interest in this? In other words, was this originally a sale and leaseback to Terra Firma?

***Stephen Lovegrove:*** Yes, I suppose it would have been a sale and leaseback—

***Sir Amyas Morse:*** So it was originally land owned by the MOD but sold for—?

***Stephen Lovegrove:*** For a 999-year term—

***Sir Amyas Morse:*** And then leased back—?

***Stephen Lovegrove:*** For 200 years.

***Sir Amyas Morse:*** For 200 years to the MOD. So there is a sort of reversionary interest. And now you're releasing to the market a development lease, or something like that. You're releasing at least a subsidiary leasehold interest, or something like that?

***Stephen Lovegrove:*** It must be that, yes—

***Sir Amyas Morse:*** You're not giving a freehold interest?

***Stephen Lovegrove:*** No, it can't be, because underlying it is a 999-year lease. It is quite a complex deal and it's quite an old—

***Sir Amyas Morse:*** I won't take you off on it now.

Q115 **Chair:** We don't want to revisit Annington Homes today.

***Stephen Lovegrove:*** I am sure you will want to visit the Annington—

Q116 **Mrs Trevelyan:** My concern across the board, therefore, with this programme is that the challenge for you as individual accounting officers is balancing the value-for-money question and meeting your spending review capital receipts target, along with meeting what are obviously going to be potentially some high-risk housing challenges to turn land into the homes we need.

I am afraid, Mr Lovegrove, that as you were kind enough to publish yesterday a list of the various places you intend to sell, for the purpose of generating apparently 17,000 homes of your 57-odd—

**Chair:** Better than the 71 so far in the—

Q117 **Mrs Trevelyan:** Yes, it's going in the right direction. It's just to understand a little better that balance of value for money, risk and the wider policy that you will be considering for your Department.

For instance, in the case of Southwick Park in Fareham, which is a golf course with a big house in the middle of it, is that a freehold to sell? Can we build on a golf course? What do we do with all the other people? There's a whole College of Policing in there and a whole number of other people. The value for money for selling if it's a golf course and the planning people saying, "That's fine. Build a small city on it, around this very nice old house"—in your head, how have you put that into the mix comfortably as the accounting officer?

***Stephen Lovegrove:*** First, a word on the numbers, because it's important to make sure that we know exactly what we are talking about.

In the year to date, we've made three announcements and we have announced in those three announcements that we have identified sites that can accommodate 39,000 housing units. Of those 39,000 housing units, only 17,000 of them are to be scored in the period up to 2020, because—well, for fairly obvious reasons—

**Mrs Trevelyan:** Time lags?

***Stephen Lovegrove:*** Yes. The principal reason why the majority of those sites indeed are beyond 2020 is for precisely the types of reasons that you're talking about. We have identified them as surplus to military requirements at this point, and that is obviously where we need to begin. We have identified them as having the potential for housing, and that is very often with planning permission—but, equally, it is very often without planning permission—in a local authority plan. There may be any number of different reasons why it would be difficult to execute on that, which is why so many of our sites fall into riskier categories than, ideally, we would like—

Q118 **Chair:** May I just ask about this? There are two golf courses in that list—

**Mrs Trevelyan:** In this list published yesterday, there are two golf courses.

**Chair:** Is that normal? It is very unusual to get planning permission to build on a golf course, I would have thought.

***Stephen Lovegrove:*** I am afraid I do not have the details about whether or not there is even remotely a local plan to build on a golf course. What we are talking about is a patch of land that incorporates a golf course, and there may be land around it. Does the MOD really need a golf course?

**Chair:** No, I accept that!

Q119 **Chair:** We were quite surprised that it was just two up for sale, as it was—the RAF having a good time.

***Stephen Lovegrove:*** Perhaps it falls under the definition of training estate, I don't know. The issue is really that, certainly if there are listed buildings—there are plenty examples, and some were in that Channel 4 programme the other day—or amenity sites in there, that does not mean to say that we are not getting rid of the land, but it certainly means that building housing units around that land might not be straightforward. I would be surprised if the land that you are referring to there was actually one of the sites that falls into this period where we have to fit 55,000 homes, for those kinds of reasons.

Q120 **Mrs Trevelyan:** That is interesting, because following the Department's press release yesterday with this new list, which included the Stonehouse barracks in Plymouth—setting off a Plymouth war, and I would suggest that it is never wise to pick a fight with the Royal Marines, 700 of them, but that is your problem, not mine—

***Stephen Lovegrove:*** We are reviewing security around main buildings.

Q121 **Mrs Trevelyan:** Most of the sites are ranges, or at Catterick there is land not being used, although we are extending Catterick, and they all make sense and have potential because it is land that is no longer required from barrack sites and that sort of thing. The other one that struck me and that I found surprising, having visited recently, was Amport House in Hampshire. It is probably a grade II listed house given to the military by a family 50 or 60 years ago. There is a huge non-financial value to its use—it is where all the padres go, and where a lot of the compassionate work is done, that sort of thing.

You have not really answered my question about how you balance, as the accounting officer, that value for money—selling what could become a nice hotel—with ensuring that the wider requirements of your forces are maintained. Therefore, my question is, does this programme really afford you the chance to meet the capital receipt demands of the Treasury, which obviously you get to keep, rather than looking at that wider issue of housing and your particular Department's—

***Stephen Lovegrove:*** In an echo of Mr Wormald's observations, it is quite a complex equation that we have to solve when selling this stuff. We have an estate optimisation plan to reduce the size of the MOD estate by 30% by 2040—that is the headline number and separate from anything we are doing with colleagues in the DCLG. Within that, what we absolutely need to do is to make sure that we have the appropriate facilities and capabilities within the estate to be able to support the military effort. That is not merely a question of having ranges and places where you can drive tanks; it is also a function of whether or not there is support to, for instance, as you say, the padres, or whether we have the right rehabilitation facilities for personnel who have been injured, and so on. So there is a huge range of different capabilities that we need within the estate.

There is a big organisation in the Ministry of Defence, the Defence Infrastructure Organisation, that is constantly thinking through these kinds of things. What we certainly don't do, notwithstanding the point you made about Royal Marines barracks, is take any decisions that are going to compromise military or, perhaps more broadly, services outputs. Without knowing the exact details of Amport House, I would be very certain that the kinds of facilities that it currently provides will be provided somewhere else. Making sure that that is the case in these kinds of cases sometimes slows up the disposal. I was looking through the transcript of the last hearing that we had and my predecessor, Mr Thompson, made exactly that point. One of the risks that we have is that we can't find the right kind of land to replace what we think we might be able to get rid of.

The value for money question is quite a broad one. Some of these aspects are captured in the handrails that have been provided by DCLG. There was an interesting letter written by the former Chief Secretary to the Treasury that provided considerable help in allowing accounting officers and Ministers to try to weigh-up those kind of considerations in the round and not purely pursue narrow value for money decisions, which obviously can end up with slightly perverse consequences.

**Chair:** We have about 10 minutes, so if we could keep exchanges a little briefer that would be good.

Q122 **Karin Smyth:** I was just going to pick up on the high risk and one issue that we didn't pick up. Mr Rutnam wasn't quite clear on the relationship with Network Rail. It is a bit like the trust issue—who owns that and how much control do you really have over that?

***Philip Rutnam:*** It is perhaps a little bit simpler than the case of the NHS, in that Network Rail is one very large, very significant corporate entity with a board that is answerable, ultimately, to the Secretary of State, with a chief executive who is appointed, by me in fact, as an accounting officer. I am the principal accounting officer for the whole Department for Transport group. We then have a whole series, as you would expect, of working arrangements between the Departments—sometimes involving the Treasury—and Network Rail to make sure that we have clarity about objectives, clarity around performance, in terms of delivering against those objectives, good flows of information and good working relationships and so on. It is, perhaps, altogether rather simpler.

I think Network Rail's view of the target for releasing land suitable for housing would be very similar to the view that I offered at the start of this hearing, which is that it is an ambitious target. It is a target that they recognise and is a target that they are very energised by and actively working towards. The press release that they put out yesterday reflected the fact they had developed a much more detailed plan of further iterations beyond the thing they were able to share back in 2015—a plan for how they are going to do their absolute level best to contribute to this target at the same time as achieving some significant capital receipts, because there is an important financial dimension to this as well as a value for money dimension, and also supporting other Government objectives where they are relevant, such as regeneration.

I would say the relationship with Network Rail is one that we have discussed in this Committee a number of times. It is an extremely important relationship for the Department. We invest a great deal of energy in trying to make sure that it is a relationship that is characterised by clarity around objectives and honesty around progress, and I think we are seeing some good results.

Q123 **Chair:** Can I just ask why you got off to such a slow start as a Department? Figure 8 on page 28, which we were looking at before, says in the fourth column that the estimated capacity of land sold and scored against the contribution for the Department for Transport is 71.

***Philip Rutnam:*** I have to say I was rather surprised to see it was as little as 71. I don't think the 71 tells the full story, as I was trying to indicate earlier.

Q124 **Chair:** You press released a better story yesterday.

***Philip Rutnam:*** The press release yesterday was principally about the plan for the period ahead, though it did say that Network Rail has already realised disposals of land for 1,200 houses, but which haven't yet been through the HCA verification process.

Q125 **Chair:** So really you are saying this is a lag in verification?

***Philip Rutnam:*** It's a lag. That is data as at the end of March 2016. Data as at the end of June 2016 is, I think, 544—an improvement on 71—and there are a further 1,200 or so cases that are waiting for verification by the HCA. I would say we are at about 5% against the target. 5% plays MODs 12%. 5% does not leave me feeling comfortable at all, but it is better than 0.2%.

Q126 **Chair:** So, Mr Molton, from your point of view are there any particular issues for the Department for Transport, or is it just—

***Colin Molton:*** We have got a very good working relationship with the Department for Transport, and there are 16 Network Rail sites with capacity for around 5,000 units. We are now doing detailed due diligence on that, so we are seeing quite a strong pipeline coming through.

Q127 **Chris Evans:** The Welsh Labour Government will not thank me for asking this question, but you will be aware of several scandals where land was sold at a cheap rate. The most famous one is Lisvane, where land was sold for £1.9 million and then was eventually sold on for £39 million. How have you avoided that happening in this case?

***Melanie Dawes:*** Colin may want to expand on this, but we provide guidance to Departments. We certainly have well-established rules within the HCA on the sorts of assurance we need before we sell a site and on how far it is right to have taken it through the planning system and on capturing as much of the land value uplift as we can. There is a bit of a trade-off here. Generally, we should not go for full planning permission. Often a developer will not want anyone else's detailed planning permission. They will want to design a site themselves. Equally, to sell a site very early is often not best value for money unless there is some kind of overage contract in place. Colin may want to expand on that, but we can use overage contracts. Often the right answer is to get some kind of planning consent. It will depend a bit on the nature of the site and the nature of the market.

Q128 **Chair:** Have you had much from overage contracts?

***Colin Molton:*** We have had some significant returns on overage. Our approach—

Q129 **Chair:** Some people watching this might not understand the term "overage". As you are an expert, could you explain it?

***Colin Molton:*** For very small sites, it is almost always the case that we would get an outline planning consent, because the majority of the value uplift from a greenfield site is between a local plan allocation and an outline consent being granted. As has been said, the detail is there for the developer. The value added between outline and detail is relatively modest. We will almost always invest to secure an outline consent for small and medium sites. For some of those larger sites over a longer period of time, we may go for a local plan allocation and then work through the planning process. We will still be in a conditional contract and ensure that overage profit-sharing arrangements are in place to capture value uplift.

We are securing significant proportions of value uplift on the very large sites. It is more common to enter into a master developer agreement and deal with the site in phases. A lot of those larger sites require huge sums of money to be expended on infrastructure. It can sometimes be a bit simplistic to look at the value of sites with planning consent without looking at the cost required to actually derive a return from those sites. We need to look at the whole appraisal in the round.

**Chair:** Just one last point, because time is running out.

***Melanie Dawes:*** This is an expert area, which is why the Homes and Communities Agency is now the default place where land is sold within Government. Unless a Department is big, like the others represented around the table, and has the capacity in-house, the default rule in Government is that sites are transferred.

**Chris Evans:** I understand that it is a devolved issue, but I just wanted your opinion on that. Thank you.

Q130 **Mr Bacon:** Mr Rutnam, you mentioned a ninefold increase in land sales on the 2010 target. That is a significant amount of land. I was told that in London alone, Transport for London has the equivalent of 16 Hyde Parks in land. Obviously that comes under the control of the Mayor of London, a former member of this Committee, and I imagine he has his own views—I have not talked to him about them—on what would happen on that land. Are you talking to the Mayor of London's office about what will happen with the TfL land, and are there lessons that you might learn from what is done with that land in London, where there are particularly acute problems, that might be applied elsewhere in the Department for Transport's estate?

***Philip Rutnam:*** Yes, absolutely. We are talking to them. TfL, as you have inferred already, is not included within the scope of our targets, but we have a very active dialogue and working relationship with TfL at all sorts of levels. It has briefed us on its ambitious and important plans for the development of the transport estate in London. Of course, the overriding priority is to maintain it for operational transport uses. I am sure TfL would endorse that, but there are opportunities for development, including development over tube stations and elsewhere. TfL has very significant property expertise in house, as indeed does Network Rail, which is absolutely focused on this task of how to realise property for wider value—for financial value as well as regeneration value—while maintaining the operation of the estate. We have a strong relationship with TfL.

Q131 **Mr Bacon:** Thank you. Mr Lovegrove, you mentioned that there is a target of a 30% reduction in the MOD estate by 2040. Is that in land area?

***Stephen Lovegrove:*** That is in land area, yes.

Q132 **Mr Bacon:** The MOD has more than 2% of the UK land mass. Are we to assume that you will have by the end of this process 1.4% of UK land mass or thereabouts? Because that is a lot of land.

***Stephen Lovegrove:*** It is a lot of land. We do need quite a lot of land.

Q133 **Mr Bacon:** Yes, I know you do. I know there are colleagues who are concerned that you might sell too much or the wrong stuff. All the housing in this country takes up only 1.2% of the land area, so you could do quite a lot to solve the problems we face.

***Stephen Lovegrove:*** I am not wholly clear that anybody necessarily wants to live on some of the areas of land that we have got, particularly if we are still using it. I have just been told that it is actually a 30% reduction in the built estate.

Q134 **Mr Bacon:** Okay. Do you think that there are opportunities, given that you have got such a huge amount of land, to achieve some of your other policy goals, for example, in terms of recruitment and retention, through the imaginative use of your land and the way that you sell it?

***Stephen Lovegrove:*** Yes, I do. As you know, we have a right-to-buy programme at the moment, which has been running for two years and has been successful. Serving personnel can borrow 50% of their salary interest free and put that towards buying a home or, indeed, moving home.

There are certainly schemes that we should be looking at to try to make a self-reinforcing type of offer to our serving staff at the moment. Certainly, we need to look at the provisions of the Housing Act. Certainly we need to be working harder on the provisions of the Self-build and Custom Housebuilding Act, to see whether there is anything—

Q135 **Mr Bacon:** You said the magic words, Mr Lovegrove.

**Chair:** Mr Bacon has had his moment of satisfaction.

***Stephen Lovegrove:*** We will see whether there is anything we can do on that. Later this afternoon, I am having a conversation with my colleague, Lieutenant General Richard Nugee, who appeared in front of this Committee just before the summer, on the families' accommodation point, which you will remember well. We will talk about some of the things that we might be able to do rather more imaginatively, and mesh some of the tools we have in the locker, with which we are sometimes not quite as smart as we could be.

Q136 **Chair:** You know that there is a strong Committee interest in that. I want to move on to some quick questions, first to Melanie Dawes. What matters more to you, obtaining value for money or reaching the land disposals commitment? What is the overriding priority for Government?

***Melanie Dawes:*** I don't see a conflict between those two for the most part. Individual accounting officers sometimes need to challenge us and say, "We can't quite meet a target by that date." Sometimes it might be better for them to defer a sale and to get a better return. As a programme, we need to listen to those arguments, so that we don't compromise value for money in Departments because of our deadlines.

We manage the risk that that might then create for the programme not delivering by having a buffer. We have made good progress in increasing the amount of land that we now have in scope. We haven't quite got there but we have got another 20,000 units of land since the NAO looked at this in the summer.

Creating a buffer so that we can avoid some of those conflicts is part of what we are trying to do. In the end selling land for housing usually gets the highest price—not always—so there is not an intrinsic conflict as a general rule in this programme. That doesn't mean that sometimes there cannot be individual trade-offs that accounting officers need to make.

Q137 **Chair:** I am tempted to get into hypotheticals about a crash in housing prices but at this point in the cycle I won't. We gave you some plaudits at the beginning, Ms Dawes, for your role and that of your Department in pulling this together and giving better guidelines. I will ask each of the permanent secretaries: you haven't had the handbook from the Department for Communities and Local Government and yet you have been producing land for sale and selling it off. Has that hampered the approach you've taken? Just say yes or no, Mr Wormald.

***Chris Wormald:*** I'm sorry?

**Chair:** Has not having the handbook and the full guidance about how to implement this—

***Chris Wormald:*** We have had the draft of the handbook. The single most—

**Chair:** So you have been working from the draft. So you are treating the draft—

***Chris Wormald:*** Just to be clear, the single most important thing is the working relationship we were talking about earlier with the HCA and DCLG, which is very good. That for us is the single most important thing here.

**Chair:** Okay.

***Melanie Dawes:*** Can I just clarify that we do not view the document as a draft? It is just that we have not published it yet. But it is always potentially subject to—

Q138 **Chair:** You keep telling us when it might be published. You say you are reluctant to commit to a date, but we do like to have something to hold you to account against. What timeframe are you going to be publishing this in?

***Melanie Dawes:*** Very soon, I hope.

**Chair:** Before Christmas?

***Melanie Dawes:*** But I am not going to make the mistake I made last time of predicting a season.

Q139 **Chair:** What is holding it up? I am a bit puzzled.

**Melanie Dawes:** It is just—

**Mr Bacon:** What about a decade?

**Chair:** Oh, that is very mean.

***Melanie Dawes:*** It is simply that we have a new ministerial team who are looking at this. We have made very good progress in going through the details with them of this programme. It is a priority for them. We have made it very clear it is a priority for this Committee. They have agreed on the monitoring and we now need to take that a step forward and publish it. We are also working with the Cabinet Office, because they are publishing a revision in due course of the original OGC guidance from 2005 on the disposal of public sector assets, and we are hoping to do the two together. But if that starts to delay us, then we may well release the handbook.

Q140 **Chair:** What about the annual report that you are going to be producing?

***Melanie Dawes:*** We don't have a date for that yet.

Q141 **Chair:** If it is annually, it is presumably going to be annually at the same time every year.

***Melanie Dawes:*** Yes. I am very happy to try to clarify that for you quickly.

**Chair:** Just a simple thing: it helps us schedule our hearings when we might want to talk to you about the annual report.

**Karin Smyth:** Chair, that is something that I want to come back to. I am looking for guidance Do we as a Committee look at the annual report? Do we have this come back as a recall?

**Chair:** We may do. We may find that everything is working very smoothly and we might be lucky not to have a recall.

**Karin Smyth:** How will we know that? Will we see the annual report or will that be brought to our attention?

Q142 **Chair:** Of course, yes. That is why I am asking about the annual report, so that we keep a close eye on the monitoring. We are really pleased about the monitoring and the annual report. I would just stress again that we have got only 8,000 released so far, or 8%—

***Melanie Dawes:*** It is now 11,000, which is 7%, in the latest figures.

Q143 **Chair:** And it is year one?

***Aileen Murphie:*** Between 5% and 8% is being sought under the Report.

**Chair:** So it is very back-loaded, and with this very high level of risk on the sites there is a real risk to this programme. We saw the same pattern the last time round, so perhaps we will not discuss it this time but it would seem to be prudent to think about planning for the next Parliament's programme now rather than having this lurching programme, if it is going to be seriously working with less risk.

Can I ask about postcodes? When you are doing the monitoring, will they be released? As land is released and housing is built, will the postcodes of that land be released in the annual report?

***Melanie Dawes:*** As we produce our monitoring—

**Chair:** Some will not have postcodes—I do recognise that.

***Melanie Dawes:*** Yes, but the only way we can construct a system for monitoring the sites and the homes as they are built is to have information on postcodes, so I think that will form part of our monitoring data. I will be expecting us to release that monitoring data, with summaries, no doubt, in the annual report, but possibly more frequently in between times.

Q144 **Chair:** The other thing is Richard Bacon mentioned the Mayor of London. As a London MP, I have been speaking to the Deputy Mayor for Housing and others. They are very good at mapping issues and the GLA did submit to us in evidence that they believe it is possible to overlay disposal sites with the London development database, which monitors most permissions, starts and completions, in order to build a picture of what past disposals have delivered, if details of previously disposed sites were provided to the Greater London Authority. Is that something you are doing or you are willing to do?

***Melanie Dawes:*** We are now going to be monitoring and releasing data on the old programmes, so sharing that data with the GLA certainly should be possible. They have not approached us, I believe, with that request, but we would be happy to talk to them.

Q145 **Chair:** I am passing it to you now and I am sure they have heard this or will follow this and make sure that they write to you about that—particularly with London having such an acute shortage. My final point is for Mr Wormald. The health PropCo took away land from places like my constituency and others because it was deemed to be locally owned health land or it was not local enough to stay in the local health economy under the changes that took place after 2011. Is that PropCo land something that you are looking seriously at providing housing on that is affordable?

***Chris Wormald:*** Yes. I have majored on the trusts, which is the vast majority of the land. Perhaps I will write to you about what we are doing with that, but we look across the whole—

Q146 **Chair:** That would be good. Is there a prospect that the Mayor of London could have back some of that PropCo land as part of the development plans that he has got for housing? That would be a way of solving both the land release receipts and providing the housing that Londoners need.

***Chris Wormald:*** As I say, I will write to you on this subject. I have not briefed myself on that particular—

Q147 **Chair:** Okay. I recognise that we are at the end of the session. Did the NAO want to come in?

***Aileen Murphie:*** Just to say on the annual report, once we have a date for that and we know what is in it, I think that will provide a good basis for the Committee's next session, if it wants to do that.

Q148 **Chair:** Ms Dawes, I think you're going to be on a regular return on this one.

***Melanie Dawes:*** I look forward to that.

**Chair:** Thank you all. I have been adding up the amount of Permanent Secretaries' time in hours and days—it has been an expensive session, but I am sure you are worth every penny. You will know—if you haven't worked it out, Ms Dawes will tell you—how committed we as a Committee are to making sure that this programme works. Our constituents want homes to live in—not virtual homes or possible homes—so we are really keen to keep watching this programme. Thank you very much indeed for your time. I am sure we will be seeing you all again before too long.