

# **FINANCE COMMITTEE**

Tuesday 5 November 2002  
(*Morning*)

Session 1

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## FINANCE COMMITTEE

### 21<sup>st</sup> Meeting 2002, Session 1

#### CONVENER

\*Des McNulty (Clydebank and Milngavie) (Lab)

#### DEPUTY CONVENER

\*Elaine Thomson (Aberdeen North) (Lab)

#### COMMITTEE MEMBERS

\*Brian Adam (North-East Scotland) (SNP)

\*Mr David Davidson (North-East Scotland) (Con)

Mr Tom McCabe (Hamilton South) (Lab)

\*Alasdair Morgan (Galloway and Upper Nithsdale) (SNP)

\*Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD)

#### COMMITTEE SUBSTITUTES

Mr Keith Harding (Mid Scotland and Fife) (Con)

Mr Keith Raffan (Mid Scotland and Fife) (LD)

Andrew Wilson (Central Scotland) (SNP)

\*attended

#### THE FOLLOWING ALSO ATTENDED :

Ian Doig (Adviser)

Professor Arthur Midwinter (Adviser)

#### WITNESSES

Pat Bagot (Communities Scotland)

David Bookbinder (Scottish Federation of Housing Associations)

Anna Donald (Scottish Executive Development Department)

Isabel Drummond-Murray (Scottish Executive Development Department)

Alan Fraser (Scottish Executive Finance and Central Services Department)

Jim Kinney (Scottish Executive Finance and Central Services Department)

Lindsay Manson (Scottish Executive Development Department)

Alan McKeown (Convention of Scottish Local Authorities)

Iain McMillan (CBI Scotland)

David Orr (Scottish Federation of Housing Associations)

Mark Turley (City of Edinburgh Council)

Ian Williamson (Communities Scotland)

Peter Wood (DTZ Pieda Consulting)

#### ACTING CLERK TO THE COMMITTEE

David McGill

#### SENIOR ASSISTANT CLERK

Terry Shevlin

#### ASSISTANT CLERK

Gerald McNally

#### LOCATION

The Chamber



# Scottish Parliament

## Finance Committee

*Tuesday 5 November 2002*

*(Morning)*

[THE CONVENER *opened the meeting in private at 10:07*]

10:25

*Meeting continued in public.*

## Budget Process 2003-04

**The Convener (Des McNulty):** Members will recall that, as part of our financial scrutiny arrangements, we agreed to widen the consultation process to receive evidence on the budget proposals from organisations beyond the Executive. We conducted such an exercise at stage 1 of the process this year, and it proved a valuable tool in our consideration of next year's budget, so we decided to repeat the exercise at stage 2. I am delighted to welcome back Iain McMillan, director of CBI Scotland, and Peter Wood, head of public policy at DTZ Pida Consulting. We had also invited back Grant Baird, but he is unable to be with us today.

I invite both witnesses to make a short opening statement, and then we will proceed with questioning from members.

**Iain McMillan (CBI Scotland):** Thank you for inviting CBI Scotland to be represented today. We take the work of the committee seriously and it is always a pleasure to come and give evidence.

It is worth recalling that the annual budget is closely tied to the annual Scottish three-year spending review, which in turn is driven by the United Kingdom three-year comprehensive spending review. The CBI had quite a lot to say about the comprehensive spending review and about the balance between taxation, income and expenditure. However, I am conscious that that is a matter for another jurisdiction and my comments today will be restricted to those matters that relate to devolved Scotland.

The issue for us is where the money is spent, rather than the income and expenditure equation itself. The extra £4.1 billion over three years, of which the 2003-04 budget forms a part was, in that restricted sense, extremely welcome. As an organisation, CBI was in the main supportive of the outturn of the Scottish spending review, particularly in relation to investment plans for

education, lifelong learning, transport and some areas of health improvement, which are important elements in improving the supply side of the economy.

I will not go through the complete list, but efforts are being made now to increase performance among young people in education and there are forward plans on the lifelong learning side for education for work and enterprise. On transport, we very much welcome the recommendations of the consultants who have been considering the multimodal studies in the three main transport corridors—the M74, the A8 and the A80. The Minister for Enterprise, Transport and Lifelong Learning has also committed to starting the process of work on upgrading the A8 and A80 to motorway status.

On health improvement, the point is never lost on the CBI that the health service should be a health service and not just an illness service. The proposals to improve the health of the people of Scotland are important, and should be commended.

I am happy to take questions at the appropriate moment.

10:30

**Peter Wood (DTZ Pida Consulting):** Good morning, convener and members of the committee. This is my first visit to the chamber in its current form. The last time I was here, it was to see "Ane Satyre of the Thrie Estaitis"—I am sure that it is not like that at all now.

The committee invited me to give evidence in May, and I was pleased and honoured so to do. At that meeting, I commented on various factors of the budget, including the overall spend and the balance of spend as reflected in the expenditure plans. I commented on specific areas of expenditure. Members will be relieved to hear that I do not intend to repeat the things that I said in May, but I would like to make some observations on the overall spend pattern, as set out in the draft budget, and I will pick up a few points about the measurement of benefit and the targets that have been set. My comments will focus on enterprise, lifelong learning and transport and on health.

I agree with Iain McMillan that there is little point debating the balance between expenditure and revenue. The expenditure plans of the Executive and the Parliament reflect the resources that are made available through the United Kingdom fiscal system. The question is how we best spend the money that is available. From my reading of the draft budget, I understand that it indicates a growth in real expenditure—in terms of today's money—of about £3 billion by 2005. Of that growth, almost half—46 per cent—will be

accounted for by increases in health spending; about 30 per cent by increases in the resources available to local government; and 14 per cent will go into enterprise, transport and lifelong learning. Those elements account for the great bulk of the spending increase, with the greatest part being on health spending.

In May, I expressed my reservations about how well the increased expenditure on health might be used and about whether there was a danger that it might feed into cost inflation, and might not buy patient improvement. That question is still hanging. I recognise the difficulties that face planners. The annual real growth in health spending is about 6.5 per cent, although it is arguable that inflation in the health service runs above the retail prices index rate because it is a labour-intensive service and because of the rising cost of drugs. The real growth in resources may be rather less than the raw figure implies. I made a rough back-of-an-envelope calculation which showed that, if differential inflation is allowed for, the true growth in real resources is perhaps 4 per cent a year, rather than 6.5 per cent, although that is still substantial additional expenditure.

The issue is how that extra expenditure will be spent and used. To an extent, it is hard to tell from the draft budget what the money will be spent on, what the balance between staff and equipment will be and where the priorities will lie. I am not saying that the draft budget contains no indications, but those that it does contain are fairly limited. There is still a concern about exactly what health benefits the extra expenditure will produce and what the priorities will be.

I have a couple of observations on the health targets that are set out in the draft budget document. On one level, there are what I would call high-level targets on improvements in the morbidity and mortality rates associated with various types of illness. However, if one looks closely at those targets, one sees that they are largely projections based on recent trends: they show where we will get to if things carry on as they have done in the recent past. I wonder whether those targets are challenging and biting.

The lower-level, more operational targets tend to focus on waiting times—people not having to wait more than a certain length of time. I found it hard to assess from the document the scale of improvement that the changes in waiting time represent. What is the baseline against which the improvement is measured? There are some tantalising hints in the document, but one would have liked to see a more rigorous analysis of the scale of improvement in targets such as waiting times for different conditions.

The fact that the waiting time targets are split between waiting times for a consultation and

waiting times for treatment raises questions about how long people are waiting from when they become ill to when they are treated. However, the main issue is that I would have liked to see in the targets a clearer statement of the baseline position from which we are starting across a wider range of indicators and a clearer statement of the scale of improvement that is expected.

On expenditure on enterprise and lifelong learning, in May I suggested that the balance of the increase in expenditure between higher education and other elements of the budget might better be changed. I note with some pleasure that there appears to have been a shift, with a greater increase in spending on higher education, which I welcome. Serious matters face higher education funding at the UK level as well as at the Scottish level. We are beginning to see bubbling up into the public arena discussions about top-up fees for example, and higher education funding is an issue to which the Parliament will have to return, when the budget comes under renewed scrutiny.

I know that the committee is concerned with targets, and I want to make an observation about the targets that are set out for economic development, especially those that relate to Scottish Enterprise and Highlands and Islands Enterprise. Again, we have relatively impressive-sounding targets, including increasing research and development and productivity against international comparators such as the Organisation for Economic Co-operation and Development average. When we examine the targets closely, we should ask how testing they are, because they are not quantified. How much improvement is required to say that the targets have been met?

My other concern is with the more operational nuts-and-bolts targets. The question that lingers in my mind is how far the achievement of those operational targets will transform the economy. Are they really challenging, and how do they compare with current performance? I do not want to bore the committee, but I will give one example. One suggested target is that the survival rate for assisted small businesses should be 70 per cent after three years. The current level is about 67 per cent, and the difference between the two figures is within what I would call the statistical margin of error. I wonder whether the targets are challenging. Furthermore, how much evidence is there that achieving the operational targets set for Scottish Enterprise will be enough to change the economy's performance? There are questions about that.

My last comments are about transport. I welcome the commitment to certain key schemes, to which Iain McMillan alluded, and the evidence that progress will be made on the M74, M77,

Kincardine bridge and so forth. However, I was taken aback by the traffic targets for 2021, which appear to be to stabilise traffic at 2001 levels. That target is unbelievable. That is all that I have to say.

**The Convener:** Thank you. I will kick off by asking you both to return to our previous discussion on the balance between capital and operational expenditure. What is your view of the balance between those two in the budget? Do you think that the Executive has got it right? Are there any issues that you want to highlight?

**Iain McMillan:** It really depends on how infrastructure will be paid for. If, on the one hand, a trunk road is paid for by the Scottish Executive and the capital sums are paid outright to the contractor, that is capital expenditure. If, on the other hand, the trunk road is built by a design, build, finance and operate model—whereby the capital expenditure is raised by the consortium that builds and owns the road, which is then, under whatever agreement, paid by the Scottish Executive for the use of the road—the expenditure becomes revenue expenditure that is paid out over time.

In our view, it depends on what will actually be delivered at the end of the day. We are interested in the transport infrastructure that will be made available. Given that there can be debates about how we should provide financing for that infrastructure, the tension between capital expenditure and revenue expenditure can be loose. Our interest is in outcomes.

**Peter Wood:** I agree with Iain McMillan's first point. The financing of elements of capital expenditure through the private finance initiative has meant that I have not quite worked out how the scale of the investment in bricks and mortar and equipment compares with the investment in people. My excuse is that the draft budget has been available for only a few days. We need to reflect on the matter.

I also agree with Iain McMillan that the basic question is about what is being procured or delivered. I find it hard to answer that question because, in certain areas, the budget does not contain the detail to say what the expenditure will produce. There is an obvious concern that money that is channelled into current spending may tend simply to drive up costs rather than to produce extra output.

That question cannot be answered at a broad-brush level. One would need to drill down into the various categories of expenditure. In health, one would need to consider the balance between buildings and equipment and staff. In the local authority education sector, one would need to consider the balance between schools and teachers. The matters require to be considered in

those terms rather than in terms of whether the right proportion between capital spending and current spending is X, Y or Z.

**The Convener:** The Executive makes great play of infrastructure investment in schools and hospitals and so on, which is a theme to which it constantly returns. Clearly, there are hard decisions to be made. Last time, we discussed whether the Government had the correct balance in the hard decisions that need to be taken on transport projects. Are you concerned about the uncertainty that you talked about? How should such decisions be made and how should they be made clear?

**Peter Wood:** The answer to the question of what is the right balance between investing in buildings and investing in staff and personnel must depend on an analysis of where the constraints lie. In the health service, for example, is my father's hip operation being delayed by the absence of a theatre or by the absence of a consultant who can do the operation? That kind of question can be answered only with such an analysis.

On the roads side, my view is that considerable progress has been made in the rational assessment of road projects. The Scottish transport appraisal guidance and associated analyses are providing us with a rational basis for deciding where road improvements are needed. The CBI may not agree with me, but I think that, on the whole, the balance has been fairly well struck for aspects on the transport side. It seems to me that we have a rigorous and relatively transparent process by which infrastructure spending on transport priorities is analysed.

**Iain McMillan:** I agree with everything that Peter Wood has said. To answer the question properly, one would need to examine the various projects in detail and to consider, for each project, what the Executive is trying to achieve and the manpower and skills and buildings and other infrastructure that would be required to achieve that. Once that was done, one would be able to come up with an aggregate figure. However, how each project is arrived at is more important than the high-level balance between revenue and capital expenditure in the round.

I also agree with Peter Wood on the methodologies for prioritising capital expenditure or, indeed, revenue expenditure on DBFO transport projects. That is the case in respect of prioritisation and also capital investment appraisal per se.

**Brian Adam (North-East Scotland) (SNP):** I want to elaborate a little further on the transport budget. I refer you to table 8.14 on page 142. Will you comment on the presentation of the table and of "What we will do with the money"? A significant

proportion of the additional resources appears to be going into capital charges rather than capital construction. The capital charges and, indeed, the depreciation increase are substantially greater than the amount that is going into capital construction. Will you comment on that?

10:45

**Peter Wood:** I am sure that the accountants can answer the question better than I can. All that one can say is that the payments for capital charges reflect the consequences of decisions that have been made about investment—they are in the document because the investment has been made and it is not possible to whisk them away. Nevertheless, questions arise. This is an interesting area. As Iain McMillan said, the way in which projects are financed affects the future pattern of expenditure. Projects that are financed through PFI-type mechanisms imply that expenditure will be made far into the future. That is a feature of the investment, as it were.

**Brian Adam:** With respect, Mr Wood, the costs that relate to PFI and PPP are specified in the table. I assume that the capital charges relate to other matters. Indeed, I assume that a lot of them relate to the resource accounting and budgeting accountancy technique. I am happy to be corrected, but I think that, as the charges do not deliver anything, the bulk of the additional money would appear to be totally a paper exercise to put back in the 6 per cent.

We have not seen any significant improvement in maintenance, which is what the resources are supposed to go to. If you look at the figures for road improvements and winter maintenance, you will see that they are down on previous years. I am not sure why an additional £60 million is accounted to capital charges. What is the figure delivering? It is unlikely to reflect an interest payment on capital borrowing, as that is not how that is done. It must be a feature of resource accounting and budgeting. The money is not being ploughed back into services.

**Peter Wood:** I said that the question of how capital charges are accounted for is best addressed to the Scottish Executive's accountants. The figures have to be represented in any transparent and proper accounting procedure.

I did not say that the figures represent PFI charges. The point that I was making was about the way in which expenditure has to be accounted for in financial terms, which is that they have to be reflected in budgets. Mr Adam is correct to say that the figures concern charges that have been made in relation to resources that have been committed in the past; they do not represent new investment.

In response to the question of whether the charges are wrong, inappropriate or incorrect, I would say that that is not a question that I can answer. As I said, Mr Adam should address the question to a public services or public finances accountant.

**Alasdair Morgan (Galloway and Upper Nithsdale) (SNP):** I wonder whether I may take you on to another matter. I think that you said that we are talking about how we spend the money and that we are not talking about the balance between expenditure and revenue, but there is one area in which we could do so.

The last time that Mr McMillan came before the committee, he said:

"We would like the uniform business rate poundage parity with England to be restored."—[*Official Report, Finance Committee*, 21 May 2002; c 2044.]

I notice in the local government section of the document that the income from non-domestic rates is projected to rise over the next three years by 22 per cent. I do not think that that will be due to expansion in the economy, unless something substantial is about to happen that I am not aware of. Will you comment on that? The figure is buried away in the local government section—table 10.02 on page 170 shows that there will be a £340 million increase in NDR over the next three years.

**Peter Wood:** I have no real comment on that question. As I have said, I have had the document for only two days and I have not read that table. I have noted what the Executive has said about its position on business rates, but I have not particularly focused on the matter for this meeting.

**Iain McMillan:** The income from non-domestic rates should rise cumulatively through the retail prices index. I agree that the figure is puzzling, but I cannot account for it. That question would need to be directed to either the minister or the Scottish Executive official who compiled the figures. Although there will be a revaluation of property subjects in 2005, that will simply be a redistribution exercise and should not raise any extra revenue. I am afraid that I do not know the assumptions behind the figures, although we very much welcome the one-year freeze on the uniform business rate that will begin next April.

**Elaine Thomson (Aberdeen North) (Lab):** I apologise for missing your introductory remarks, gentlemen, and I am sorry if I ask a question that you have already answered.

Much has been said recently about demographics, support for skills and the requirement to keep skilled people in Scotland. What are your views on that area of the enterprise and lifelong learning budget? It has a very strong focus on supporting modern apprenticeships and on education maintenance allowances for people from lower-income families.



**Peter Wood:** When we discussed the matter in May, I said that I was not sure that the figures at the time gave enough priority to higher and further education. However, looking at the current budget figures, I welcome the evidence that priority is being afforded to skills and learning expenditure. That includes expenditure on higher and further education and on modern apprenticeships.

The education maintenance allowance is a welcome innovation. I recently carried out work on the structure of the 16 to 19-year-old age group in Scotland, how it will develop over the next five or six years, the split involving education, employment and unemployment and so on. We should welcome any measures that encourage young people to stay on in education, given the compelling evidence that young people who do so have much better labour market outcomes. In other words, they get jobs, have fewer periods of unemployment and so on. The greatest labour market problems involve 16-year-olds who come out of education and go nowhere. Indeed, that group is the greatest waste of talent; because it does not receive any further education and training, it has significantly poorer prospects in so many ways. As a result, I welcome the priority that has been given to the matter. Increasing education and training resources and ensuring that they are effective is only appropriate.

**Iain McMillan:** I agree with all of Peter Wood's comments. Ms Thomson's point about demographics and so on is absolutely relevant. We are probably about to enter an era in which far fewer people in their 50s will retire on well-funded pensions. Over time, it will become even more difficult for people to retire even at 65 on well-funded pensions. The length of time that people will have to remain in the work force will creep up. That will not happen tomorrow—we will not go over a cliff edge or anything like that—but over time, things will change. On the one hand, there will be a need for income on the part of individuals; on the other hand, increasingly, the economy will need those individuals in the work force. That will all have a significant impact on how we train individuals and retrain them several times during their lifetimes and careers. Lifelong learning and the whole education panoply have always been priorities for public expenditure in Scotland, but the skew is heading more in the lifelong learning direction.

The budget document refers to matters such as extending the modern apprenticeship scheme. That is desirable and we support it. There will be further investment in further education, which ties in with much of that. The review of education for work and enterprise is due to report fairly soon. There are likely to be recommendations in that report that will require public expenditure. We support those measures, and they will have to be

built upon over time, for the reasons that I have set out.

**The Convener:** I wish to pick up on the other side of the enterprise budget. There has for a long time been a debate about the balance between business support investment—which is largely conducted through Scottish Enterprise—and what might be called broader economic regeneration investment. The most obvious example is the use of money to deal with vacant and derelict land. Is that matter adequately reflected in the budget? What is your view of the balance between those two areas and do you see a need—in particular in relation to the latter—to emphasise further the use of available resources to deal with vacant and derelict land, if we are to regenerate parts of Scotland, for example Clydeside?

**Iain McMillan:** I would need—to be able to give a full answer—to see in detail what was proposed and find out what Scottish Enterprise and Highlands and Islands Enterprise will be doing with the resources in the round. My answer will therefore need to be based on the principle, rather than on the detail. Any country needs an organisation of some sort to reclaim land and to develop it to ensure that it is fit for purpose and redevelopment. Scottish Enterprise and the local enterprise company network do that. If they did not, some other person or organisation would have to do it. Our members take no issue with the balance that Scottish Enterprise and the enterprise and lifelong learning department have struck on where expenditure is placed.

**Peter Wood:** I am sorry, but I will digress into the distant past. In the mid-1980s, I was involved with a number of people who were, with the then Scottish Development Agency, working on projects that were examining the balance of expenditure on the SDA's activities, and especially its property function. A criticism of the SDA in the 1980s was that relative to what was being spent on direct promotion of economic activity, much of its budget went into physical renewal—removing bings being the prime example. In the late 1980s and early 1990s there was a swing away from physical regeneration towards providing more direct support for business development. I supported that readjustment of priorities.

We are now talking about shifts at the margins. There are important physical renewal issues in certain parts of our cities and urban areas that must still be addressed. However, renewed sites will be taken up and used only if expansion of economic activity makes that possible. It is possible to prettify areas without stimulating economic activity. When spending on that programme area was excessive, we ended up with improved sites that no one was using.

11:00

Unless we are concerned simply about aesthetics, decisions about spending should be driven by economic opportunity. I agree with Iain McMillan that there is at the moment no great controversy about the balance between support for physical regeneration and support for business development. We could argue for shifts on a project-by-project basis, but the long-term shift that focused the role of the Scottish Development Agency more on the promotion of economic activity than on physical site redevelopment was correct. The balance might shift slightly from time to time, but I would not argue for a radical change in priorities.

**Mr David Davidson (North-East Scotland) (Con):** I want to return to the budget process, which is the subject of this morning's meeting. Both of you said clearly that you found the budget document difficult to deal with because it does not contain a clear statement on baseline spending—in other words, it does not contain comparisons. How would you like such comparisons to be made?

**Iain McMillan:** Baseline spending is an issue, but I am far more concerned about how expenditure is tied to headline statements about what money will be spent on. The draft budget does not do that particularly well, despite its being a 194-page document.

We support many of the desired and intended outputs to which the document refers. We have every reason to believe that the number crunchers in the Scottish Executive have done a reasonably good job of costing proposals and on phasing them throughout the budget and spending review period. However, the document contains nothing that shows that the relationship between expenditure and outputs has been tested rigorously.

**Peter Wood:** I agree with Iain McMillan. My comments did not relate to the comparison of the spending figures with baseline expenditure, because those data are provided. I was commenting more generally on what the Executive is procuring with its expenditure.

I am aware that the criticism that I am making can be levelled at public expenditure processes in general—it probably often is. When announcements are made, the headline is often, "We are increasing spending by X, Y or Z". Those who work in business know that their group board would not necessarily be impressed if they told it that they were increasing costs by 50 per cent the following year. The board would ask what they intended to do with the money and what the company would get from that.

I know that in business the issue is simpler; it is about revenue versus cost. However, it would be a move forward if in the draft budget and documents of that type we could see more clearly what outputs were expected from spending. There should be more transparent comparisons between where we are and where we expect to reach. My comments about baselines and monitoring measures referred to measures of output and benefit from expenditure. Progress has been made, but it would be beneficial to move towards setting out to the people of Scotland what we will buy with the money that we will spend on their behalf.

**Mr Davidson:** You are both saying that specific targets should be set out in the budget—that we should say that we will spend £X million and expect to receive Y in return for that.

**Peter Wood:** That is what we aspire to. I do not for a minute underestimate the difficulty of doing so in an area as complex as health, but it is worth while and necessary to try to make further progress in that regard.

**Iain McMillan:** In fairness, a budget document of this nature cannot possibly go into the kind of detail that would allow individuals such as Peter Wood and me to evaluate those matters. For example, the document refers to a number of other Scottish Executive documents across the various ministerial portfolios, and rightly so. Below that, there are other documents that contain information. Below that again, weighty business cases are produced for all sorts of things.

I will give an example. I am a non-executive director of the Scottish Ambulance Service Board, which presented to the Scottish Executive a business case for converting the accident and emergency service to a priority-based dispatch model. We have done that over the past few years and all the detail about how the returns on expenditure will be generated and what benefits will accrue to the patient and the taxpayer are carefully and rigorously set out in a document that is about an inch thick. A substantial aggregation of such business cases would need to be read and understood in order to form a powerful judgment on a budget document such as the one that the committee is considering.

**The Convener:** I thank the witnesses for their evidence this morning, and for the evidence in the past which has contributed to our consideration of the Executive's budget document.

Before we move on to item 3, Arthur Midwinter wants to clarify something for members.

**Professor Arthur Midwinter (Adviser):** The debate about the balance between operational and capital expenditure intrigued me. In table 0.05, entitled "DEL Capital Budget 2002-03", the line for

social justice shows that there will be no capital expenditure this year because of the accounting arrangements. I understand from the work that I have been doing on the housing paper for the cross-cutting review that capital expenditure by housing associations appears not to count as capital expenditure by the Government, so it does not show in the accounts, despite its being a significant amount.

Likewise, the housing revenue accounts of local authorities, which represent more than £100 million of capital expenditure a year, are not recorded in that table. What confuses me is that the single allocation for finance and public services appears to have been included in the table. I would have thought that the housing revenue account expenditure and the single allocation under section 94 of the Local Government (Scotland) Act 1973 are similar. We must try to clarify that, but I think that it is an understatement of the amount of capital expenditure that is actually being delivered. It is an accounting issue. Someone from the outside might say, "You're not spending any money next year on capital. How can that be?"

**Alasdair Morgan:** Housing associations are under the control of the Executive.

**Professor Midwinter:** Yes, but one of the main accounting thrusts behind the move away from local authorities towards registered social landlords is apparently that RSLs are classed as voluntary, so on the accounts throughout Europe they do not count as expenditure by Government. RSLs get a grant for their housing development programmes from the Executive, which does not show in the accounts as capital expenditure, although it is being used for new build and for improvement of the existing stock.

**Alasdair Morgan:** It is the same as public-private partnerships, in that it goes off balance sheet.

**Professor Midwinter:** Almost 100 per cent of the housing revenue account is consent to borrow. It is therefore the borrowing, and not the capital expenditure, that shows in the accounts.

**Brian Adam:** Does it not appear in the Communities Scotland budget at all?

**Professor Midwinter:** It appears in the Communities Scotland budget, but it does not appear as capital in table 0.05 of the budget document, so the figures are an understatement of how much capital is actually involved.

**Alasdair Morgan:** We will eventually reach an ideal in which all the figures in that table are zero. *[Laughter.]*

**Professor Midwinter:** We will then not have to spend our time trying to work the figures out.

**The Convener:** That is something that we might be able to explore in Skye when the minister comes before us.

Item 3 also relates to next year's budget. I welcome the witnesses who will be appearing before us to discuss the modernising government fund. We will hear evidence from Alan Fraser, head of the 21<sup>st</sup> century government unit at the Scottish Executive, and Jim Kinney, head of the local government implementation team in the 21<sup>st</sup> century government unit. I hope that we do not get too bored saying that; it is quite a mouthful to get around.

It is important that the Finance Committee cover areas of the budget that the subject committees do not cover. That gives us an opportunity to examine the modernising government fund. I invite Alan Fraser to make a short opening statement, after which we will ask questions.

**Alan Fraser (Scottish Executive Finance and Central Services Department):** The purpose of my unit—the name of which is, as the convener said, a bit of a mouthful—is to focus on better service delivery. The unit is based closely on the Executive's major policy commitment to pursue social justice and to bridge the opportunity gap. We promote citizen-focused projects that provide better services and better access to information for everybody. Although we have the modernising and e-government tags, we are not e-driven. The projects that we support and pursue are often e-enabled, but technology is not seen as the driver; the needs of the citizen as customer are most important. We try to take it into account that not everybody across the social spectrum has access to technology.

The Scottish Executive has had to carve out for itself a place on that agenda. Ministers have signed up to a vision of 21<sup>st</sup> century government that includes a role in communicating, setting standards, facilitating exchanges between service deliverers—clearly, the Executive does not deliver the majority of services directly—and, through the modernising government fund, incentivising a range of public sector projects. The fund is into its second round.

**The Convener:** I will kick off. The modernising government fund is based on support for particular projects. How do you evaluate or monitor those projects and decide which are the most appropriate to develop further? Is a pattern emerging in the choice of projects? If so, what are the identified benefits of the projects that fit that pattern?

**Alan Fraser:** In the second round of the modernising government fund, ministers wanted to focus on priority areas. Ministers came to a view on what were the priorities across the patch

through, among other things, examination of local authorities' action plans. We had thereafter a dialogue with local government chief executives and other interested parties about how to focus on those priorities. That was how we identified the broad range of key priorities for the second round. When we invited proposals for projects, we asked that a proper financial appraisal and a statement of net present value be produced so that the proposals would be pointed towards savings and service delivery gains.

The final test of the projects is in the delivery. The projects are still running, but we have had positive output. The projects are required to report quarterly and we examine the gist of those reports and put them in the public domain on our website so that other practitioners can benefit. Part of the point of the evaluation is to discover whether we are getting what we hoped for from the projects; another part is to spread the learning benefits throughout the public sector.

**Alasdair Morgan:** One of the projects that features in your targets is the Scottish electronic citizen card. What is that and what will it provide for citizens?

**Alan Fraser:** The project builds on the Accord card scheme, which has been piloted in Aberdeen. The Accord card is a smart card that is similar to a bank card, but which instead of a magnetic strip has a chip that can hold fairly detailed information about the owner, if the owner wishes it to.

The cards have been issued to schoolchildren in Aberdeen, who can use them to pay for school meals and to access leisure facilities. The scheme is now being expanded to the wider population to be used for leisure facilities, transport and libraries. The Accord card collapses into one all the current cards that one can end up carrying, so it has considerable capacity to be loaded up with a range of applications. We want to ensure that, as different authorities and bodies develop such cards, we do not end up with 32 flavours of smart card. We therefore promoted a single common standard, partly for reasons of interoperability so that the cards could be used throughout different areas, but also to save money. We wanted to ensure that one trustworthy technology could be identified and used. That is the reason for our intervention. The cards will be a major benefit for people in respect of simplicity of access to services.

11:15

**Alasdair Morgan:** The Scottish Executive "Draft Budget 2003-04" states that the target is to develop

"By 2006 ... a Scottish electronic citizen card available to all citizens".

I take it that that does not mean that all citizens would have a card or would even be able to get one.

**Alan Fraser:** That target means that by 2006 all citizens should be able to get a card.

**Alasdair Morgan:** Is there any target as to what people will be able to get using the card?

**Alan Fraser:** The card is the tip of the iceberg. What people will be able to get will depend a lot on the systems behind the card and the extent to which individual bodies or authorities are organised to deliver particular applications. The room for variation is in which applications individual authorities decide are their priorities.

**Alasdair Morgan:** Is it intended that the card will cover central Government services? Are you thinking about the card being used in the first instance only for purchasing local services?

**Alan Fraser:** The potential is very wide, but in the first instance the card will be a means of gaining access to local services. That access could be extended to health services, for example, although that is another complex area that is not part of the immediate plans.

The first Scottish universal application that we expect is as a youth card. We are building on the back of the established Young Scot card for young people, which acts as a means of identification, a proof-of-age card and it gives access to discounts, information and services. All 32 authorities want to develop the card for that purpose in the first instance.

**Alasdair Morgan:** If a person has a youth card, will the same card continue to be of use to them once they have passed into adulthood?

**Alan Fraser:** That is the potential; that is what we want to see.

**Alasdair Morgan:** That would be almost an identity card for adults. You talked about proof of identity in regard to the Young Scot card.

**Alan Fraser:** I mentioned proof of age.

The one point that we—and everybody else who is involved—would make is that the card is not intended as an identity card. The card would be voluntary; it would be available to people who want to carry it, but people would not be compelled to have one. It is voluntary for young people to obtain and carry a Young Scot card. Some young people want to have a card that they can use as a proof-of-age card.

**Alasdair Morgan:** If the card is being used to deliver council services and, for example, in the school canteen, the benefits come if the only way that you can get Coke out of a machine or whatever is to use the card. Although the cards are voluntary, they will soon become essential.

**Alan Fraser:** That is right. The most economical outcome will be everybody choosing to use the cards. We, and those who are promoting them, hope that the advantages of the cards would be such that most people would choose to use them. It is not part of the plan to say to people that if they do not use a card they will be denied services—that is not the proposal.

**Brian Adam:** I want to develop that point a little. Alan Fraser said rightly that the card is based on the Aberdeen Accord card. How far down the road are you in assessing its viability? As I understand it, the cards have been used to a limited extent so far in schools, but their use not been expanded beyond that. Is the time scale for their introduction throughout Scotland realistic? I must admit that I find your argument that such cards will not be back-door identity cards to be totally unconvincing because it would be so simple to say, for example, that school meals will be provided only if pupils use cards, which would make their use compulsory.

**Alan Fraser:** There were two points in that question. One is about the use of cards. There has been a limited pilot in Aberdeen including a number of applications for the card, and the intention is to extend that further in Aberdeen. As Brian Adam will know, that forms part of the overhaul of the way in which public services are delivered in the city.

Brian Adam's second point was that he is unconvinced that the cards will not be identity cards. There is no question but that if someone carries a card such as a banker's card, bus pass or anything else, it has their identity on it. If it does not carry the individual's identity, it could belong to someone else and be open to misuse. However, we are not talking about cards whose possession will be a requirement and which people will be compelled to produce on demand.

**Brian Adam:** That will become a requirement if school meals are provided only on production of such a card. The difference between the cards in this project and bank cards is that there is a host of banks, but we are not suggesting that we will provide a range of alternative local government services from which people can choose. We are saying that a range of local government services will be provided by using the card, but there appears to be no guarantee that those services will continue to be provided if people do not use the cards. If there are no guarantees that services will continue to be provided reasonably and equally accessibly, will the card be anything other than a compulsory identity card? That will be especially important if you want to introduce the cards on a cross-border basis throughout Scotland so that their use is transferable between authorities.

**Alan Fraser:** That might be the ultimate objective. However, if Brian Adam is looking for reassurance, ministers have made it clear that the agenda is about access to services, which must reflect the fact that different people might have difficulties with particular means of access. People who have reading difficulties or disabilities might find some of the channels of access harder to navigate.

**Brian Adam:** One cannot get a library book without a library card. I presume that library cards will be subsumed into the smart card.

**The Convener:** We are probably beginning to labour the theme.

**Brian Adam:** The convener may have used the right word, but there is, nevertheless, an important point of principle. Will choice be restricted as a consequence of rolling the system out? Will we get value for money? Has a proper assessment been made of any of the schemes that are currently in place? Is it realistic to expect the scheme to be rolled out Scotland-wide in the next four years?

**The Convener:** At present, the schemes are in an early phase of development, so there will be an evaluation. I presume that, as well as operational issues, some of the philosophical issues will be dealt with in that context. We must bear in mind what we are trying to scrutinise today.

**Brian Adam:** This is the only place where the card will be scrutinised. This is the committee that will deal with the policy issues, as well as the financial issues. Is not that correct?

**The Convener:** I suppose that that is right, but the issue concerns roll-out. Does Elaine Thomson want to speak?

**Elaine Thomson:** Oh, thank you. Sorry, I have lost my thread of thought.

**The Convener:** Do you want to rethink and let David Davidson speak first?

**Elaine Thomson:** No, I wanted to ask about 21<sup>st</sup> century government. Does not part of that involve doing things in new ways and facilitating new technology with a view to substantial cost savings? For instance, in the past 10 to 20 years, the private sector has achieved substantial cost savings by conducting some transactions electronically, such as paying suppliers through the bankers' automated clearing system. How do the projects that the modernising government fund is resourcing intend to achieve such savings?

**Alan Fraser:** All the projects that we back are subject to financial appraisal and we expect a positive net present value. We expect them to make gains not necessarily through savings, but through service delivery improvements. Some benefit must be projected. The aim is not purely to

achieve cost savings, but Elaine Thomson is right to say that, ultimately, significant cost savings are possible in many cases. As I said, one way in which we are pursuing savings is by encouraging authorities throughout Scotland to pool their resources to develop their applications, rather than to risk pursuing them separately at considerable cost. We are pursuing savings in a couple of areas.

**Elaine Thomson:** I will backtrack ever so slightly. We talked a bit about Aberdeen's Accord card. To make the best use of information when rolling out such a service throughout Scotland with a view to the creation of a Scottish electronic card, will you base that service on the pioneering work that has been done in Aberdeen city, rather than reinvent the wheel?

**Alan Fraser:** The project has been fast-tracked but has yet to be signed off formally. Aberdeen City Council will be a lead authority because, as Elaine Thomson suggests, we are trying to capitalise on the experience and the technical know-how that authorities have accumulated.

**Mr Davidson:** Earlier, I wanted to talk about what Mr Fraser said about applications elsewhere. The principle that I took to be behind your evidence is that you are looking for improved service delivery—I presume that that means improved efficiency—and that part of that will come through improved access.

Mr Fraser also referred to access to information, which is a two-way exercise. If Brian Adam were a 17-year-old who used an electronic card as identification to enter a library, that would give the service provider information about who was accessing the service. What about the other way round? Is there anything in it for the user, apart from the fact that people who have a card will receive a selective discount, which will be paid for by others who do not receive one?

From Mr Fraser's arguments, I am not sure how the savings will be produced. It is logical to presume that the information on a uniform citizens' card across Scotland will, when presented to anybody, identify clearly where its holder lives and to which authority they have, or have not, paid their council tax. How will you obtain the service efficiencies for which you are looking, given the bureaucracy involved in transferring funding? For example, if someone takes a prescription from an Aberdeen doctor down to Birmingham and has their medicine dispensed there, Grampian NHS Board ends up sending money down to pay for that prescription and undertaking a balancing-off exercise. Is that what you have in mind?

**Alan Fraser:** I am not sure whether I followed your example of pharmacists and dispensing. I do not know about that.

**Mr Davidson:** I was just describing the process in which funding follows the individual from the source authority.

**Brian Adam:** The initial motivation behind the Aberdeen scheme was to allow citizens who paid higher council taxes in the city to benefit from the subsidies that were given to local services. The scheme has moved a long way from that stage, when I was involved in it, and has grown into something that is totally different.

If discounts are offered, the individual card user will benefit personally. Mr Davidson's point is that the benefit appears to be all on the side of the scheme's administrator and that individuals will have little or no personal benefit, other than through possible general savings across the board. That is a long way away from having privileged access to local services for making a local contribution.

**Alan Fraser:** I hope that I did not throw in a red herring by talking about discounts. The discounts that are involved in the Young Scot card are from a range of private sector providers who are interested in offering incentives to young people to come to their places of business and do business there. That is outwith the public sector rationale for a citizens' card, which is more about enabling the streamlining of the back-office processes. Instead of an individual authority dealing with and maintaining information on individuals across a set of transactions, we could begin to bring the information together in a single place. That would create potential savings in the administrative, back-office costs of doing business.

11:30

**Mr Davidson:** What is your audit process for checking out the savings? How do you set that process in train in the projects that come to you?

**Alan Fraser:** At the moment, we rely on quarterly reports from the individual projects. In turn, the internal processes of each of the authorities that are involved—the beneficiaries—are also audited.

**Jim Kinney (Scottish Executive Finance and Central Services Department):** Each project is required to submit to the Executive a quarterly report, which we put on our website. Those reports contain information on how the project is progressing and actual expenditure against planned expenditure. At the end of the year, each project is required to put in place an independent certification process through the internal or external audit process to certify that the money was spent on the purposes for which it was intended—the project—and to give us a balancing statement of the fund at the end of the financial year. There is scrutiny of how the project is managed and of expenditure on the project.

**Mr Davidson:** What sanctions do you apply if the projects have not achieved what you want them to achieve?

**Jim Kinney:** If there are any problems with the financial statement, the ultimate sanction is that we have the right to ask for the money back.

**Mr Jamie Stone (Caithness, Sutherland and Easter Ross) (LD):** I note from our briefing paper that the origins of everything that you have told us about the modernising government fund are in a United Kingdom-wide fund. What discussions have you had with departments in Westminster about what you are trying to do? How have you co-ordinated your work with them? It strikes me that the Benefits Agency should be involved because information about social security benefits—disability living allowance, for example—could be usefully connected with and put on to such cards.

**Jim Kinney:** I will answer that question in a second, but first I will backtrack to the feedback on the card that we get from local authorities. We respond to demand from local authorities to support particular projects. A fair number of local authorities want not only to develop the Accord card, which is based on the Aberdeen model, but to pilot other work on the use of the card, such as the dialogue youth card that Alan Fraser mentioned, which has been used in Angus, Edinburgh, Argyll and Bute and Glasgow. A fair amount of development work has also been done on the citizens' card in Dundee. All local authorities realise that there is a benefit in having a card scheme. They also realise that there is a benefit in collaborating to avoid having 32 flavours of card.

When we review the projects, we get feedback on the card. One benefit that is put to us is that the card represents the concept of a citizen's account with the authorities. One of the difficulties in managing local authority services is that authorities hold multiple records for individuals. That makes it difficult for the customer to transact with the council and sometimes makes it difficult for the council to transact with the customer, because access to information about the service is not readily available to the customer. The card is not the driver. As Alan Fraser said, the back-office gathering of information on the citizen is the driver.

To return to Mr Stone's question, we consulted the office of the e-envoy in London on standards for the card and the infrastructure required to support it. We are aware of developments in local authorities down south. For example, in Cornwall, a consortium of seven authorities is working on a citizens' card. We want to ensure that any developments in Scotland are compatible not only with UK Government departments, but with the local authorities in England and Wales.

**Alan Fraser:** If I may, I will complete Jim Kinney's answer to Mr Stone's question about our work with Westminster departments. As we develop standards, we have one eye on the need to ensure that those standards are common. We also need to ensure that, as a matter of policy, whether or not one decides to join up services, at least technology is not an obstacle. That is another strong driver in trying to facilitate the development of the information that is carried on the cards, however people decide to use them. If we have common standards, we will not have a mosaic of incompatible cards.

**Mr Stone:** I am sorry if I put the wrong emphasis in my question. I totally understood what Jim Kinney said about the scheme not being card driven, but being back-of-house driven, so to speak. You are telling me that the Whitehall department that is responsible for benefits is in communication with you and is keeping an eye on what might or might not happen in future.

**Alan Fraser:** Our main communication is with the office of the e-envoy which effectively convenes all the interested departments. We have close contacts with, and are members of, different groups and working parties.

**Alasdair Morgan:** I will take you to the third of the fund's three targets, which is to

"Ensure services are available through broadband technology in the pathfinder areas of South of Scotland and Highlands and Islands by 2004."

When you say

"the pathfinder areas of the South of Scotland",

you are not talking about the whole south of Scotland, but certain patches of land in that area. Is that correct?

**Alan Fraser:** No. Our reference to

"the pathfinder areas for the South of Scotland"

is to Dumfries and Galloway and the Borders.

**Alasdair Morgan:** What do you mean when you say that you will

"Ensure services are available through broadband technology"

in Dumfries and Galloway "by 2004"?

**Alan Fraser:** Let me take a step back. The purpose of the pathfinders is to test the proposition that aggregating the public sector demand for broadband might be a more effective way of levering in private-sector interest in servicing those areas. The objective is to have a contract and service delivery in place across the pathfinder areas by 2004.

**Alasdair Morgan:** The point that I am trying to get at, which crops up throughout the budget

document, is about measures of success. How will I know if the target has been met?

**Alan Fraser:** If we have a contract in place, the target will have been met. The difficulty is that, to an extent, we are testing the market—or testing the water. We need to find out what can be done to achieve a reasonable depth and intensity of service. There will be a process of negotiation with, we hope, a number of potential providers to establish that.

**Alasdair Morgan:** It sounds as if you are saying that you will have met your target if, sometime in 2004, an unspecified broadband service is available somewhere in the south of Scotland.

**Alan Fraser:** Well, yes. I suspect that Mr Morgan is going to lead me into saying that we will meet our target if the level of service is reasonable. I appreciate the difficulty, but we cannot say precisely what level of service will be available. Nevertheless, we are putting together a set of requirements from the partners in the project, which include local government services, such as education, and the health service.

**Alasdair Morgan:** You will appreciate where we are coming from: the whole point of having targets is that they must be measurable. I assume that, at the least, targets must also be slightly challenging. It sounds as if the challenge in this instance was met the day after the budget document was printed.

**Alan Fraser:** I appreciate your point entirely. If the process to put a highly specified target into the document were straightforward, that is what we would do. The difficulty that we face is that this area of expenditure is testing a proposition, so to speak. Until we run through that test, we will not know precisely what service we will get or what it might cost. The difficulty with being highly prescriptive is that, among other things, that would compromise our negotiating position with providers. If we clearly stated the level that we wanted or the price that we were prepared to pay, potential suppliers in the area would have us over a barrel in any negotiations.

**The Convener:** Elaine Thomson has a specific question on broadband.

**Elaine Thomson:** My question is on exactly the same issue that Alasdair Morgan was pursuing. Are you the main drivers for rolling out broadband across Scotland? Do you provide the impetus from the Government or the Scottish Executive for that initiative?

**Alan Fraser:** My unit is responsible purely for the pathfinder project, which involves testing the proposition and promoting the roll-out of broadband in the two areas that I mentioned. Activity is continuing in other areas through private

providers. A further element in the work of the enterprise and lifelong learning department is that of using a number of measures to promote business take-up of broadband. However, that is outwith my responsibility and my minister's responsibility.

**Elaine Thomson:** So it is not within your unit's remit to ensure that X per cent of the Scottish population has access to broadband by a certain date.

**Alan Fraser:** No.

**Elaine Thomson:** Is the enterprise and lifelong learning department responsible for that?

**Alan Fraser:** Yes. That department leads on the broadband strategy. As I recall, no target for broadband has been expressed in those terms. However, I will check that and put it right if my recollection is wrong.

**Elaine Thomson:** My final question is about the pathfinder areas. As I understand it, the objective of the strategy was to aggregate public sector demand and to negotiate with private suppliers to find out how they might be able to roll out broadband in specific areas. Is the strategy making good progress?

**Alan Fraser:** Yes, it is on track. The issue is complex, as it involves bringing together large partnerships and going through their precise requirements both across the wider public sector and in local government. However, we expect to meet the set target on time.

**The Convener:** I want to move on to a more technical question. Is the modernising government fund based purely on consequentials that come to Scotland from similar UK programmes? To what extent have consequentials from the capital modernisation fund and the invest to save budget been dedicated to the modernising government fund?

**Alan Fraser:** Although we have the benefit of the consequentials from both sources, we are not driven by them. Within the budgetary process, it is up to ministers to decide on allocations across the range of programmes. As the modernising government fund is a relatively small programme, ministers are not necessarily driven by—nor do they keep an eye on—what comes from the consequentials.

**The Convener:** What percentage of the modernising government fund is made up of consequentials from those two sources?

**Alan Fraser:** From memory, it is probably less than 100 per cent of the consequentials. However, I doubt that our modernising government fund is precisely analogous to the funding sources. As a result, it is rather difficult to make comparisons.



I should repeat that the modernising government fund is very small in comparison with the total Executive budget, from which large sums of money go all the time into what one would probably call modernisation projects. The modernising government fund is by no means the sole source of such money.

**Mr Davidson:** Unsuccessful bidders will expend energy, cash and staff time on their bids. How will you keep them on-side if they have already been unsuccessful? What incentive is there to spend even more on another bid?

**Alan Fraser:** We tried to fast-track those who seemed to be most closely aligned to what we were after. We gave them an early indication that they were likely to be successful so that they did not need to go through a lot of unnecessary bureaucracy.

On unsuccessful bidders, we expect every authority to be successful, because this time we managed to build up a series of partnerships, some of which cover all authorities. Although authorities might have been participants in an unsuccessful bid in one area, they will probably turn out to be beneficiaries in another.

However, there is a general benefit above and beyond that. We have also prescribed that, where pieces of processes or systems are being developed, there should be no unique ownership of that intellectual property. Where we have funded authorities to undertake that development, they should be prepared to share information with other local authorities and bodies in the wider public sector.

**Mr Davidson:** Is that a contractual obligation?

**Alan Fraser:** Yes.

**The Convener:** I thank Alan Fraser and Jim Kinney for their evidence, which we will examine for our report on the budget process.

11:46

*Meeting suspended.*

11:53

*On resuming—*

## **Homelessness etc (Scotland) Bill: Financial Memorandum**

**The Convener:** We move to agenda item 4, which is on the financial memorandum to the Homelessness etc (Scotland) Bill. We have an array of witnesses. I welcome Mark Turley, the head of housing at the City of Edinburgh Council; Alan McKeown, the housing development officer for the Convention of Scottish Local Authorities; Ian Williamson, the head of investment and performance at Communities Scotland; Pat Bagot, the policy and practice manager for Communities Scotland; David Orr, the chief executive of the Scottish Federation of Housing Associations; and David Bookbinder, the policy officer for the Scottish Federation of Housing Associations. We have received written submissions from each organisation represented here. I hope that we will not require opening statements from them. If anybody is desperate to say something, they can do so. If not, we will move straight to questions.

**Mr Davidson:** I shall ask a simple question to start with. I have read as much as I could of the written information that we have received. Do any of you think that the financial implications of the bill are stated clearly in the financial memorandum?

**Alan McKeown (Convention of Scottish Local Authorities):** There is scope for clarification throughout the financial memorandum. I hope that we can get in and about that today.

**Mr Davidson:** Does anybody see a weakness in the memorandum? The bill will impinge differently on different organisations. Is there any particular aspect that causes concern for any organisation?

**Alan McKeown:** The biggest uncertainty is around the possible implications and how they will vary from authority to authority. We are not talking just about the housing budget for homelessness, but about the knock-on effects that the bill will have on other budgets. Resourcing the bill adequately requires not just adequate resourcing of the cost of the direct responsibilities for homelessness, but consideration of the development fund budget for housing and the supporting people budget. We must also address the implications that the bill will have, not just on the revenue accounts, but on general funds. I am sure that David Orr, from the SFHA, will have some good points to make on that subject.

**David Orr (Scottish Federation of Housing Associations):** As it is written, the financial memorandum overstates the potential for making savings in the longer term. If it is implemented, the

bill will deliver improved services; however, to anticipate significant savings—as the financial memorandum does—is perhaps to be unreasonably optimistic. There will be a continuing cost requirement to fund the services that will be required over the long term to ensure that if we manage to deal with homelessness in its present form, it will not reappear in the future. Although we will want to discuss capital and the supply of good-quality, affordable rented housing, the potential revenue cost of providing the support services is understated in the memorandum.

**The Convener:** Can you quantify that? Do you have any notion of the extent to which that revenue cost is understated?

**David Orr:** Housing associations will be required to increase the number of previously homeless people whom they accommodate and, for many people, the provisions of the bill will require a support package to be put in place. The revenue support funding for those support packages is being brought together through the supporting people proposals, which will be implemented early next year. The present rate of funding will deal with the projects that already exist in Scotland; however, the bill contains a clear requirement to increase the level of support for those projects. There is no clear evidence that the supporting people budget in future years will be able to grow to meet the increasing demand. I cannot put a figure on that yet, as it is difficult to identify what the support packages will look like.

**Alasdair Morgan:** I have a question for Mr McKeown. You talked about the uncertainty over costs. Are such uncertainties unreasonable?

**Alan McKeown:** The short answer is no. However, we must try to bottom out those uncertainties. There are routes for us to do that between local authorities, housing associations and the Scottish Executive. We need to get behind what the bill is saying and try to bottom that out. Is that possible? We can probably get some more solid ground, but I do not think that we can get the figures exact.

**Alasdair Morgan:** If the Executive had tried harder, could it have come up with a better financial memorandum?

**Alan McKeown:** That is a difficult question to answer directly. Given the time available and the fact that the relationship is there, we can develop the memorandum further. We are beginning discussions and I hope that we can further them and come to a better understanding before the bill goes much further through Parliament.

**Elaine Thomson:** Did the Scottish Executive consult some or all of your organisations when it was drawing up the financial memorandum?

**Alan McKeown:** I know that COSLA has been involved in in-depth discussions. Mark Turley from the City of Edinburgh Council has been the principal officer involved, through the homelessness task force and the homelessness monitoring group. COSLA's views have therefore been reflected from beginning to end in the process—if we can say that this is the end now. However, I am not sure that we were involved directly in the drafting of the financial memorandum or the explanatory notes to the bill.

**The Convener:** Are you saying that the consultation focused largely on the policy issues and did not concentrate heavily on the financial aspects of the bill?

**Alan McKeown:** Yes, that is a fair assessment.

**Elaine Thomson:** Did anyone come forward with views on the financial aspects of the bill or their implications?

12:00

**Mark Turley (City of Edinburgh Council):** I would like to answer that, given my background in and involvement with the homelessness task force and the homelessness monitoring group. There are three distinct types of financial implication and the answer to your question is slightly different for each of them.

It is acknowledged that the relaxation and perhaps eventual abolition of the priority need test will involve a complex set of issues that will be resolved only when the homelessness strategies are complete, which should be by next April. By then, we should be able to quantify much more precisely the improvements that will be needed in quality and supply, which are largely capital issues. COSLA was not encouraged by the recent budget announcement, which did not indicate that there were going to be significant increases in capital investment in housing to address that point.

On intentionality, the issues are largely around revenue support. The points that the SFHA made probably cover that. COSLA is not at all reassured that there are sufficient resources in the supporting people proposals. The uncertainty around pipeline projects for supporting people and the lack of guarantees about subsidy levels make us nervous about whether that funding stream will meet the intentionality requirements if the bill becomes an act.

Issues around local connection are different again. Most people accept that local connection changes will not affect the overall national resource requirement, but they might affect the distribution mechanism. That is more about the distribution of the cake, rather than the size of the cake in the first place.

**Elaine Thomson:** Are you saying that on the basis of the information that is available to everyone at the moment, it is not possible to be more precise about estimating costs?

**Mark Turley:** I believe that we can say that the issues around priority need will involve significantly more—many millions of pounds more—annual investment to generate additional supply in the order of many thousands of houses per year. Existing budgets will not address supply issues. There might be scope to look within the budget at the new resources that have been announced for the support of stock transfer. Stock transfer might address quality issues, but it will not address supply issues. There might be scope to re-examine that, but we are talking in the order of many tens or hundreds of millions of pounds for priority need. That is the huge part. As we said earlier, the intentionality issue is about revenue support rather than capital investment.

**Mr Davidson:** From your side of the fence, how long would it take to work out a reasonable range of costs that would be required to attach to the delivery of the bill?

**Alan McKeown:** We could probably do that before the end of the year. However, I would be cautious about what we would use the figures for. They would be indicative and would be used simply as guidelines. As ever, this is moveable, but we should be able to have discussions and work through that before the end of the year. There is good statistical evidence on the level of homelessness and how that is broken down into various categories.

**Mr Davidson:** We must be concerned not so much about the statistics that exist on how much homelessness there is and whether a change in categorisation—which has been described already—will increase or reduce that, but about coming up with the actual cost of implementation and delivery, otherwise the Parliament cannot agree to any bill, no matter which one it is. The difficulty that we have with a number of financial memoranda is that the figures are not fully quantified. We listen to the evidence of people such as you. For example, your colleague Mark Turley just talked about hundreds of millions of pounds possibly being required to deal with priority need. How specific is “hundreds of millions”, which is not listed in the memorandum? Our angle of approach is that we must be as robust as possible. On your side, we are looking to you to supply us with evidence if you can.

**Alan McKeown:** We have tried hard to do that. We will try to elicit some more responses from member councils and submit them to the committee as soon as we can.

**Mark Turley:** I stress that on priority need, which is the biggie, the task force

recommendations and the bill propose a phased relaxation of the priority need provisions. The only immediate relaxation is in bringing under the scope of statute those categories that are already defined in the code of guidance. We have consulted our members and they are all confident that, to a large extent, most of the people in those categories are already treated as being in priority need.

As far as COSLA is concerned, the immediate financial implications for priority need are small or nil. The issue is how we get from where we are now, to 2012. Again, the task force and the bill propose phased reviews, whereby the categories will only be extended if it can be demonstrated that supply and quality have improved sufficiently to allow that to happen. It is not a blank cheque; it is saying that we can only expand the definition of priority need if we can demonstrate that housing conditions have improved sufficiently to support that. There is no problem with the immediate definition of priority need as proposed within the bill.

**Mr Davidson:** That is fine, but is the local authority sector capable of furnishing the requirements of the bill without additional support or resource from the Executive?

**Mark Turley:** There are resource requirements under all three headings. Priority need and intentionality clearly have resource implications, and local connection may well require some redistribution of existing resources.

**The Convener:** I wish to be clear. It seems that you are suggesting that you want further research on the circumstances of what is available within the housing sector before you move forward and trigger further additions to the priority list. In other words, the supply has to be taken account of before you move to the principle. Is that what the bill proposes as you understand it, or is the bill essentially moving towards the principle and leaving the funding to be sorted out subsequently? What is your view of the mechanism that will follow the introduction of the bill?

**Mark Turley:** The task force recommendations and, as I understand it the bill, propose that there will be staged reviews. The task force envisaged that the first of those would be around 2005 or 2006, but the key is that councils are already under a statutory duty as a result of the Housing (Scotland) Act 2001 to produce homelessness strategies. Within that, they have to identify what measures would be necessary to allow a relaxation and eventual abolition of the proposed priority needs requirements of the bill.

**David Orr:** May I add to that? Over the past 20 years, one of the effects of the statutory provisions to deal with homelessness—even if it was not

intended—has been to ration the supply of housing to people who are homeless. The impact of the Homelessness etc (Scotland) Bill, if it becomes law, will be to change those rationing mechanisms, and effectively to reduce them substantially over time, so that the number of people who will be statutorily able to access housing will increase.

Our view is that the present stock of good-quality, affordable rented housing in Scotland is insufficient to deal with a demand that will clearly increase. It is difficult to identify what that impact will be before the measures are in place. As Mark Turley indicated, the homelessness strategies and the wider local housing strategies will provide us with a much more complete context for understanding where the supply problems lie.

It is realistic to anticipate that it will not be possible to meet the demand for good-quality, affordable rented housing from our present supply and from what we anticipate being able to provide on the basis of current public investment proposals. We cannot get away from the fact that, if we are to meet the bill's demands, there needs to be an enhancement of investment in new-build affordable rented housing.

**Brian Adam:** Demand will not be even throughout the country.

**David Orr:** No, it will not.

**Brian Adam:** Are you able to predict where bottlenecks are likely to develop, even if you are not able to predict their scale?

**David Orr:** In the first instance, the bottlenecks will occur almost anywhere in rural Scotland and in the housing bottleneck areas of urban Scotland, such as the whole of Edinburgh, most of Aberdeen and Perth. The bottlenecks will occur in places in which the local economy has created housing hotspots. If we do not invest in the delivery of good-quality, affordable, rented housing in such places, people will be driven out of those housing markets. Evidence that that is happening already exists.

**Brian Adam:** Would it be sensible for the Executive at least to have an interim solution to that problem? Should there be a formula for identifying those areas, which would enable resources to be allocated through Communities Scotland or the development funds that at least some local authorities will receive?

**David Orr:** In theory, that suggestion is sensible. The difficulty is that most of the programmes that are funded by Communities Scotland funding will have a continuing financial requirement. In some parts of Scotland, there will be a genuine improvement as a result of the stock transfer programme, which will improve the quality

of some existing housing stock that people do not want to live in. The programme will have a significant benefit in those areas.

I can only stress that there is a major demand problem in some parts of Scotland. Present investment is probably insufficient to meet that demand.

**Brian Adam:** It would be interesting to hear whether Communities Scotland shares that view.

**Ian Williamson (Communities Scotland):** Members will have seen from the budget bill that housing investment will increase over the budget period. Through the stock transfer programme and our development programme, there is an average investment of £350 million. Our target of providing 18,000 new and improved houses is challenging in an environment in which costs are rising. In the past four years, the unit cost of a social rented house has gone up from £59,000 to £71,000. Grant rates have not come down commensurately and they will not come down. Achieving that stretching target will be problematic.

Mark Turley and David Orr have mentioned the stock transfer programme, which will provide substantial investment. Through the replacement of non-viable housing, we hope that the stock transfer programme will increase the number of houses that the homeless can access. David Orr might have more up-to-date figures. The housing association programme represents about 80 per cent of annual investment in the Communities Scotland development programme. There are about 35,000 lets per year within that programme, of which 10 per cent go directly to those who are classified as homeless. Although the increased investment will never be ideal, it is helping to address the problem. The homeless will have access to an increased number of houses.

**Brian Adam:** South Lanarkshire Council's written evidence suggests that about 70 per cent of the houses available for re-let there will in future have to go to the homeless if the bill is passed. The council believes that that would be grossly unfair on others who require housing. Would you share that view?

We have also heard that if Highland Council gets its share of the Communities Scotland budget, it will be able to provide just eight new houses. There is significant evidence to suggest that many of the problems to do with affordable housing or the lack of it are in rural areas. If Highland is to get just eight new houses, ought Communities Scotland to be advising the Executive that it needs to come up with at least an interim solution in order to redirect resources to deal with the urban and rural housing hotspots, which simply do not have the houses? Otherwise, the problems will be exacerbated as a consequence of the bill.

12:15

**Ian Williamson:** I should perhaps point out that Communities Scotland is of course part of the Executive. However, resources for our development programme are currently allocated on the basis of measures of social exclusion. We take six indicators relating to place and individuals, one of which is the level of homelessness. We take a measure across Scotland and then allocate the resources accordingly. Interestingly, according to the formula, Highland should get allocated about 4.2 per cent of our total budget, whereas it is in fact getting 6.2 per cent of it.

**Brian Adam:** So it might get 12 houses instead of eight.

**Ian Williamson:** It has had significant increments to its programmes, particularly in recent years, because of the rural partnership for change pilot. For the future, we are moving into a scenario involving local housing strategies, which will identify the problems and the proposed solutions in each local authority area. Implicit in the local housing strategies will be the housing aspects of the homelessness strategies. We are looking to a resource allocation system that will rely heavily on evidence in the local housing strategy to determine the appropriate level of resources in the future.

We are of course aware of the hotspots that have been referred to. They should come through in the local housing strategies, and will be one of the considerations that ministers will take into account when they determine the resource allocation.

**Alasdair Morgan:** Is what Highland Council is telling us correct? Will the extra money allow eight extra units to be developed? The council estimates that it needs to provide an additional 285 units. Eight seems to be a considerable undershot.

**Ian Williamson:** I am not in a position to judge Highland Council's figures. If it is talking about an increase of £400,000 in its programme, it is probably right about the figure of eight houses. There is an issue around the size and shape of the problem in the Highlands. A number of authorities could have commented similarly that they need additional resources to tackle the problem. We are, however, working within a finite level of resources within the programmes that we are managing.

**The Convener:** Is there a danger that, if you are driven by legislative requirements, you will have to reorientate the balance of budgets both within and between local authorities in order to put the provisions of the Homelessness etc (Scotland) Bill into effect? The effect of that on other policies, such as refurbishment and social inclusion

strategies in areas where the houses are in a poor state or the people are poor, would be difficult to quantify. Do you have a quantification of that?

**David Orr:** It is difficult to give a specific quantification. Household formation is changing in Scotland and there are different requirements on the housing stock. If one ignores the bill entirely, the way in which people want to live means that, even without a growth in population, we will need to increase the number of homes by 10 per cent in the next 10 years. The present levels of investment will not allow us to keep pace with the additional demand from people who require affordable rented housing. If we add additional statutory requirements to provide housing for homeless people, the Government and its agencies will be required to deliver funding that meets those statutory requirements first. That will mean that other people will end up in a different queue and living in poor-quality housing or the wrong kind of housing for their needs.

I am reluctant to make an extended plea for additional capital funding for housing, but the total level of funding is significantly less than it was 10, 15 or 20 years ago. If we consider housing revenue account capital consents, housing association development and the community ownership programme, the level of funding is significantly lower than it was in the past. Given the restructuring in household formation and the new responsibilities on local authorities and housing associations to meet homeless people's needs, present investment levels will not meet the continuing demand for affordable rented housing in the next few years.

**The Convener:** So given current investment projections, the bill might lead to a crowding-out of other investment priorities and might have an impact on your allocation policy, which could have other social consequences.

**David Orr:** Absolutely. That is our contention. This is a guideline rather than a scientific figure, but SFHA's view is that, given the overall increase in available funding in the past few years, we want the Parliament and the Executive to set a target of providing sufficient public investment to deliver 10,000 new or improved houses a year. At that level, we might meet both the new demand from different kinds of household formation and the requirements of the bill.

**The Convener:** Will local authority or housing association tenants feel the impact of the bill through increased charges or perhaps because you will have to adapt your policies to meet the bill's requirements rather than taking other measures that might benefit tenants?

**David Bookbinder (Scottish Federation of Housing Associations):** I will highlight two categories of people who will feel an impact. The

first is existing tenants, particularly those who are legitimately seeking a transfer and who have lived in a house for 15 or 20 years, which might be the length of time since the most recent modernisation programme was carried out. The other obvious category is people on waiting lists or housing lists. Statutory responsibilities must come first. When households that live in poor-quality housing fall on hard times, if they cannot meet the rent payments, they will lose their tenancy and be housed through the homelessness route. That is right, because the bill's aim is to help people who have fallen on hard times. However, other households on the waiting list that are living in poor housing but are just managing to keep up the rent payments will be less likely to get a look in because the statutory responsibilities will have to come first.

**Mark Turley:** From COSLA's perspective, there can be nothing wrong with a policy aspiration that says that people who are homeless will, in broad terms, have a right to housing. There would be something wrong if, in the long term, we were not trying to rectify the current situation whereby fit and healthy single people are excluded from housing even if they are homeless.

The financial implications are serious, but the bill clearly says that the priority need groups will be extended only if it can be demonstrated that housing conditions nationally have improved sufficiently to sustain such an extension. Otherwise, as has been said, all that we are doing is introducing more groups into what is already fierce competition for housing.

The other point is that homelessness should not be seen as entirely separate from general housing needs. One reason why a good many people present as homeless now is that they simply cannot find a house. Twenty years ago, they would have got a house after putting their name on the waiting list and so would never have been considered homeless. They would have just gone through what used to be called the general housing needs route, but they now come through the homelessness route because there is such a shortage of accommodation in many areas.

**The Convener:** Perhaps this is not entirely an issue for today, but if I follow you correctly, the bill's extension of the entitlements associated with homelessness could be effected only by extending the waiting period or reducing the expectations of those who currently use rented property. Will the bill solve one problem simply by potentially disadvantaging another group of people who are users or potential users of rented housing?

**Mark Turley:** No, that is not the case. That would be the case if what was being asked for was a blind commitment to expansion of the priority need groups, but that is not what is being recommended. The recommendation is that the

priority need groups be extended only when it can be demonstrated that there is housing available to meet those needs.

Let me give an illustration. The City of Edinburgh Council is in the fortunate position of having completed its housing strategy. Through independent research, it has identified that it will need 9,000 more affordable rented homes over the next 10 years. By next April, every council will be able to give that sort of quantification. Over the medium term, a view will need to be taken about whether the change in condition and supply is sufficient to support an expansion of the priority need groups. COSLA's understanding is that, if that change is not sufficient, there will be no expansion of the priority need groups.

**Alasdair Morgan:** Is that the same as saying that implementation of the bill will not exacerbate the housing needs situation?

**Mark Turley:** That is true in respect of priority need. COSLA has concerns about the impact of the intentionality provisions, which we have discussed less this morning. Intentionality relates to much smaller numbers, although those numbers often represent very acute cases.

**Brian Adam:** I want to move on to a slightly different subject. The bill would encourage the offering of support to people who are having problems with their tenancy. Those problems might arise from anti-social behaviour, from the fact that they cannot cope with finances or for other reasons. The bill's supporting literature suggests that fewer people will present as homeless under the homelessness legislation.

Those of us who have served as councillors are well aware that, particularly in the cities, there are areas of low demand and that the same people end up moving from one area of low demand to another area of low demand or they move within the same area. Will the bill reduce that churn rate? Is there sufficient financial provision for support to deal with such people? I understand that the Government believes that the bill will help it to save money, but I find that hard to believe.

**Alan McKeown:** Everyone supports the principles behind the bill. We hope that we will be able to reduce the churn rate. Clearly, the continuing need for support for the repeat homeless not only has serious impacts on the ability to sustain tenancies but has long-term resource implications.

There is evidence to suggest—I hope that Mark Turley will back this up—that the empty homes initiative funding that was awarded to Edinburgh to provide support to young single people who were starting tenancies had a significant impact on reducing repeat presentations and helping people to sustain tenancies. That support may be needed

on a continuing basis—it does not come cheap. Mark Turley will say more about the situation in Edinburgh.

12:30

**Mark Turley:** The bill covers a handful of the recommendations of the homelessness task force. There are 59 recommendations in total. The majority of those are designed to prevent homelessness, through a range of measures—not least making better arrangements for people when they leave institutions. If we improve the management of people during transitional periods in their lives, that will have as great an impact on the churn as the provisions of the bill will. Those provisions are only part of the full picture. There should be a reduction in churn, but it will not be the result solely of these legislative proposals.

**Brian Adam:** My experience of churn was that it related largely to the anti-social behaviour of neighbours, poor-quality housing and an inability to manage finance. It did not relate a great deal to people leaving institutions or care. How can you address the issues that I have raised, which are responsible for a significant proportion of the re-lets in the city in which I served as a councillor? The same people moved round the same houses, which everyone thought were inadequate. Will the bill help us to tackle that problem, or will the problem be exacerbated as we give higher priority to those who are regarded as homeless, rather than to people who are moving because they do not get on with their neighbours?

**Mark Turley:** In COSLA's view, it is good that the Executive has committed itself to implementing the task force's recommendations. It is good that it appears to aspire to do away with priority need. It is good that the Executive has recognised that, to do so, it must improve the supply and quality of Scotland's affordable housing stock. COSLA agrees that, unless that happens, it would be irresponsible to expand the priority need groups. Such a step would thwart the Executive's aspirations.

Intentionality is a very difficult area. Brian Adam spoke about the churn. At the moment, many of us would like to think that people who are evicted for anti-social behaviour disappear miraculously from the face of the earth. Under current legislation, councils may ignore people in that situation. The changes that the bill proposes would make it much more difficult for councils to do that. They would have continuing responsibilities.

COSLA supports that measure, because it would allow councils to work with the most difficult households and to give them the support that they need to get them back into a reasonable way of life and mainstream accommodation. However, it

is a bold commitment. Providing the type of support that I have described has resource implications. At the moment, we are not reassured that the supporting people initiative will deliver the resources that are required. If the aspiration can be achieved, churn will be reduced.

**Brian Adam:** Why do you believe that the financial memorandum does not make provision for the level of support that is required in more difficult cases? Do you think that that cost should fall on housing budgets or on other budgets? Housing revenue accounts are ring fenced.

**Mark Turley:** The support to which we refer is far more intensive than the sort of support that one would expect to fund from within the housing revenue account. Some households' needs could be met through the supporting people initiative. However, because the pot for the supporting people initiative has now been sized—with the exception of pipeline projects—it will be difficult to use the initiative to meet new statutory requirements. The bill may become statute after the door has closed on supporting people initiative funding.

In the most extreme cases, we are talking about people who will be assessed under the community care requirements. COSLA is concerned that there are already huge pressures on community care budgets. Given those pressures, we could not be confident that the client group to which I refer will always fare well.

**The Convener:** I want to give Pat Bagot an opportunity to come in on that.

**Pat Bagot (Communities Scotland):** There are a number of issues that make it essential for revenue support to come with the capital development. The supporting people programme offers the opportunity for that and provision has been made for additional furniture grants to enable people to sustain tenancies. Local authorities are currently developing supporting people programme strategies, which will be assessed by Communities Scotland as part of the local housing strategies. Local authorities will have to prioritise the groups of people whom they can help through the supporting people programme, which is a ring-fenced budget, to enable them to sustain tenancies. The size of the budget is under discussion with the Treasury, and we do not know the answers on pipeline or growth as yet, but we are expecting to hear about that imminently. When the pool of money is known, local authorities will be required to prioritise the types of people whom they want to support through it.

**Brian Adam:** Some concerns were raised about the fact that you have ring fenced money for furniture, which could be about £3,000 per unit of accommodation. As someone who has experience

as a councillor, I am well aware that you will get complaints from existing tenants, particularly of council housing, saying, "Those folk are using the system, but when I tried to get a loan, I was turned down." I believe that you will be exposing yourself to some difficulty. The other figures that were available to us through Shelter indicated that it could cost £5,000 per family to support people in difficult tenancies. Have we got the appropriate levels of budgeting to meet those concerns and needs?

**Pat Bagot:** That is correct. The scheme is currently being developed, but the furniture grants that will be available from Communities Scotland are operating alongside other grants, including the community care grants for furnishing and crisis grants under social security legislation.

**Brian Adam:** Those moneys are often loans, though, are they not?

**Pat Bagot:** The community care money is a grant and the crisis money is a loan. Some homeless people are not eligible for a loan because they had received loans several years ago and did not repay them. However, they are still homeless and unable to have a second chance to get into secure housing.

Alongside that, we are looking at developing assistance from the voluntary sector through furniture recycling projects, for example. That will mean that the basic grants that cover white goods, beds and carpets can be topped up through other means, with loose furnishing and the other things that make houses able to be lived in.

**The Convener:** I think that we are straying into policy rather than finance areas.

**Brian Adam:** Those were concerns of councils.

**The Convener:** I understand that, but we are straying.

I am not looking for an instant response, but I want each organisation to tell us what quantifiable cost implications there will be on the bill's administration. People have highlighted the fact that there will be cost implications, but we do not have as precise a sense of that as we need. Perhaps a linked question is how those cost implications will be met, whether from grants or other mechanisms. I will give each organisation an opportunity to talk not about the total volume of money that will be available, but about the financing mechanisms. In what obvious ways could the bill or the financial memorandum be altered to advantage?

**David Orr:** I have thought about how to explain how the bill will work in practice. I will give an example—perhaps the matter can be incorporated into the financial memorandum. If a household is evicted for serious anti-social behaviour, the

requirement continues that housing be provided for that household. The SFHA agrees with and supports that principle. If that household were referred to a housing association, the association would provide accommodation on a probationary basis, using a short Scottish secure tenancy. According to the bill, the landlord is required to support that household to enable it to sustain that tenancy—we support the principle behind that.

The supporting people programme is the mechanism by which that support will be paid for; that support is likely to be quite costly—perhaps along the lines of the figures that Shelter has identified. Until we see the supporting people budgets for future years, it is almost impossible for us to be confident that that financial requirement on housing associations or local authority landlords will be met. If we leave aside the capital issues, it would help if the financial memorandum identified a revenue requirement—particularly of the supporting people programme—as a direct consequence of the requirement in some circumstances to provide support.

**The Convener:** I ask COSLA the same questions. David Orr said that it was dangerous to overstate savings. Does COSLA share that view? Do other financial issues cause it concern?

**Alan McKeown:** Yes. We have made that point in our written submission. Savings might be possible on paper, but those savings might be something completely different. Other costs fall under three broad headings—the physical provision of housing and its quality; support issues, which David Orr covered; and management. Can we bottom them out to reach a more accurate figure? We can have a good try at that. That returns to the point that the process for that would be discussion with the Executive.

Our written submission refers to the urgent need for impact assessments throughout the bill. There is no daylight between most of the submissions that I have read on that. We reiterate our view. We need some impact assessments quickly. On the back of them, we need to discuss how any funding gap can be met. We can explore various routes and mechanisms for that—not just the bill and its financial memorandum.

I am sure that the committee is only too aware of the continuing debate about housing finance and how flexibility on capital receipts could be used to plug some gaps, which might assist the housing system. We are considering how the housing system is financed.

We should not consider the bill in isolation. We should consider it in the round and as part of discussion on how housing is financed. COSLA has put some good proposals on the table, which should be explored in discussion of the bill and the wider context.



**Ian Williamson:** We must rely on our Executive colleagues to answer the convener's question directly. However, I hear what people say about the supply issue, which involves enormous pressures to produce better-quality housing that is easier and less costly to occupy. That costs money. The harder we press the quality button, the fewer units we will get for our money.

12:45

**The Convener:** I thank the witnesses for giving us their evidence today.

Agenda item 5 is evidence from witnesses from the Executive on the financial memorandum to the Homelessness etc (Scotland) Bill. We welcome Lindsay Manson, who is the homelessness team leader, and Isabel Drummond-Murray and Anna Donald, who are team policy officers in the homelessness team. You may give us a brief, opening statement after which we will proceed to questions.

**Lindsay Manson (Scottish Executive Development Department):** One of the benefits of developing this policy with the homelessness task force over two years and involving many partners is that many of our good lines have been taken by the partners who have been involved in the process.

I shall set the bill in context, although I have heard this fact mentioned before. The task force produced a first report that was incorporated into part 1 of the Housing (Scotland) Act 2001. Its second, full report was published after two years and contained 59 recommendations for the prevention and alleviation of homelessness. The bill contains five of those recommendations. The other recommendations are also being taken forward. They cover such issues as housing policy, housing benefits, homelessness prevention and homelessness alleviation. We would like the bill to be seen in the context of the full work of the task force, which we expect to make a significant impact on homelessness and repeat homelessness over the 10-year period that the task force set as its target.

**The Convener:** My colleagues are reminding me, rightly, that our focus is the financial memorandum. What steps have you taken to ensure that you can quantify the total costs of the bill to the public purse? Can you be confident that the costs that are contained in your estimates are accurate?

**Lindsay Manson:** It is clear from the responses that you have received to those questions that there is a limit to the quantification that we can do at present. However, we have put in place the actions that we need to take to produce the evidence on which we can base our estimates of

quantifiable costs. We estimate that the immediate impact of the bill—particularly in terms of priority need—will be at roughly nil increased cost, as we are moving the categories of people who are regarded as having priority need from the guidance into the body of legislation. Responses to our consultation from most local authorities suggested that they followed the guidance anyway.

We recognise that there is a need to understand what the impacts of further expansion of priority need will be, and the information that we need to assess that is being collected at present. The 2001 act required local authorities to carry out assessments of homelessness in their area and to develop strategies. The guidance on those strategies also required local authorities to link the strategies with the local housing strategies. The homelessness strategies will be available in March 2003. The local housing strategies will then take account of the homelessness assessments and they will have to be available before 2004.

The bill sets out that the next stages of implementation of the expansion of priority need will not take place until after the minister has made a statement based on the evidence that has been collected through homelessness and local housing strategies. That statement should be made no later than 2005. There is a clear commitment to take account of the evidence that will be available before further stages in expansion are reached.

**The Convener:** We have heard from the key agencies that are involved—from COSLA in particular and from the SFHA—that they estimate that extending the priority need category will have a considerable impact on required additional housing. We have also heard that implementation might involve increased rationing of the existing housing stock, which is not really quantified in any shape or form in the financial memorandum. Is the policy being quantified adequately in financial terms in the information that we are being given? I do not deny its desirability; I am just asking whether we are taking account adequately of what is needed to deliver and of what the impact of delivery will be on the amenity that housing tenants enjoy.

**Lindsay Manson:** We have assessed adequately the impact in so far as we are able to, but we have not put into the bill anything that will be brought into effect without our first knowing what the impact will be. We have staged the process in recognition of the fact that more information will come, and so that we will not take too big a step in the first instance or a step beyond what local authorities will be able to cope with. On the basis of the assessments that we have made, the first step is copable with. The next step will not be taken until we are satisfied that it, too, is

copable with, on the basis of the assessments that are made with the further information that is available to us.

**The Convener:** Is there not a danger, based on the past experience of local authorities and others, that once you have introduced the principle that a certain route can be taken, the funding will not necessarily follow in the way that you are perhaps suggesting?

**Lindsay Manson:** Section 3 specifically requires the minister to make a statement that takes account of the availability of resources and local authorities' ability to respond to the expansion. I do not think that the principle will creep in by stealth. There is an absolute requirement to stop and make the assessment before the next stage can be taken forward within the context of the legislation.

**The Convener:** In that context, is it possible for you to come up with some quantification of potential loss of amenity to other tenants that would allow you to say precisely what the impact would be of extending an aspect of priority need?

**Lindsay Manson:** Not at this stage, because to do that we need the information that will be made available to us through local housing and local homelessness strategies. It is important that we understand the size of the problem and what the individual elements of it are before we quantify the impact of the expansion.

This takes me back to my introductory statement. It is also important that we understand the impacts of the task force's other recommendations, because it quite clearly took the view that the other recommendations would have a significant impact on the number of people becoming homeless in the first place. It is important that we understand the extent to which that has been successful in the years between now and the time when we need to take a decision in 2005. It would be an acceptance of defeat if we were to assume that in 2005 the other 50-odd recommendations will have had no effect on homelessness levels. We must assume that they will have some effect and that is another factor that needs to be brought into play.

**Brian Adam:** South Lanarkshire Council has submitted evidence that suggests that, in East Kilbride, extending priority need will have a major impact on re-lets. Have you had any evidence from the task force or anybody else on the kind of impact that it is likely to have in general, or do you dispute the figures from South Lanarkshire Council? Are such figures to do only with areas that are under high pressure?

**Lindsay Manson:** I will make two points. First, in the consultation document, which was issued prior to the drafting of the bill, we asked

specifically for comments on the resource implications of the bill. In general terms, the answers that we received were that it is difficult to assess the resource implications at the moment and that a number of elements need to be brought together before that assessment can be made. We got no strong feeling from our consultees that anybody was in a position to quantify what the bill would cost after its delivery over the 10-year period.

The second point is that implementation is a 10-year programme. Some of the costs assume the full 10-year costs. We are saying that we will not move to those phases until we are confident that the costs can be met. The costs are therefore not immediately imposed.

**Alasdair Morgan:** Our problem is that the financial memorandum is meant to tell us how much the bill costs and who picks up the costs, but there are hardly any figures in the financial memorandum. The only figures in it are budgets that have already been allocated. It does not really tell us anything about the costs. The issue is not whether the bill is "copable with"—I think that those were your words—but who will pay and how much they will pay. The minister does not even have to say anything about the costs in the statement that he makes. I see nothing in the bill about the minister having to talk about the costs.

**Lindsay Manson:** The financial memorandum talks about the local authority's ability to respond.

**Alasdair Morgan:** That is the ability to cope with the bill, I presume. We should have some figures in the financial memorandum. Otherwise, what on earth is the point of having it?

**Lindsay Manson:** The bill implements the task force's recommendations, which looked forward for a period of 10 years. It is difficult to make an assessment of a 10-year programme at the beginning of the bill. However, it tries to build in the checks and balances that ensure that the different stages of the programme are not implemented until we have a clear indication of how they will be delivered.

**Mr Davidson:** The bill is an Executive bill. The Executive therefore has a responsibility to supply a robust financial memorandum. Given the apparent inability to cost anything in the bill accurately, will you tell us what directions the Executive gave you to help to produce the memorandum?

**Lindsay Manson:** The memorandum was based on an instruction to deliver the homelessness task force's recommendations.

**Mr Davidson:** However, as far as the Parliament is concerned, the committee, on the Parliament's behalf, is obliged to gain a clear view

of the costs. That is why we are taking evidence. Will the Executive come back with a new memorandum to go with the bill and republish the bill if no figures that anybody can quantify are available? The committee's responsibility is to quantify the figures.

**Lindsay Manson:** The Executive has put in place in the spending review a set line of funding for homelessness. In addition, it has increased the available funding for housing supply through the Communities Scotland development programme and through the community ownership programme. The Executive's view is that that is sufficient to deliver the bill as it comes into force. The Executive is of the view that the next stages in the expansion of priority need—this was taken from the task force's recommendations—should not be implemented until the Executive is next able to take an opinion on whether it can meet the costs. Those elements will not be implemented until the costs are assured.

**Mr Davidson:** That is the kind of clear statement that should have been part of the financial memorandum. Such a health warning should be at the opening of the memorandum.

**Lindsay Manson:** I am sorry. I thought that we had made that point in the financial memorandum. If we have not, I apologise.

**Mr Davidson:** It has not been made specifically.

**The Convener:** I will ask about the projected savings. We have heard the concerns of the delivery organisations—if I can call them that—that there are no real identifiable savings. We have heard their queries about the projected savings. Do you have a different view?

**Lindsay Manson:** I have a different view if we consider the task force's recommendations as a whole. We expect some possibly minor administrative savings under the change from a duty to investigate intentionality to the power to do so, although those savings will be offset by increased responsibilities when a person has been identified as being intentionally homeless.

In the broader context of the homelessness task force's recommendations, we expect a significant reduction in the number of people who become homeless in the first place if we implement all the recommendations on preventing people from becoming homeless. We have also established a target for the reduction in the number of those who present as repeat homeless. If we can reduce the level of repeat homelessness, that should make a significant cost saving.

Alongside that, at the other extreme of homelessness, we also expect to remove the need for people to sleep rough. Rough sleeping, apart from being a distressing form of homelessness, is

an expensive form of homelessness. The further back from rough sleeping that we can intervene, the cheaper that intervention will be.

**The Convener:** We have a number of other detailed questions on the financial memorandum. However, bearing in mind the time, would it be appropriate to submit those questions in writing, if members agree to that? You would obviously be under a tight time constraint to respond.

**Lindsay Manson:** We will respond quickly.

**The Convener:** I thank you for your evidence.

The final agenda item is to be discussed in private. I ask members of the press and public, and the official report, to leave us.

13:01

*Meeting continued in private until 13:02.*



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