

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 27 February 2008

Session 3

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE 6th Meeting 2008, Session 3

CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

DEPUTY CONVENER

*Kenneth Gibson (Cunninghame North) (SNP)

COMMITTEE MEMBERS

*Alasdair Allan (Western Isles) (SNP)

*Bob Doris (Glasgow) (SNP)

*Patricia Ferguson (Glasgow Maryhill) (Lab)

*Johann Lamont (Glasgow Pollok) (Lab)

*David McLetchie (Edinburgh Pentlands) (Con)

*Jim Tolson (Dunfermline West) (LD)

COMMITTEE SUBSTITUTES

Robert Brown (Glasgow) (LD)

Rhoda Grant (Highlands and Islands) (Lab)

Tricia Marwick (Central Fife) (SNP)

Margaret Mitchell (Central Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Ian Brown (Solas Scotland)

Howard Marshall (BEST Energy)

Jim Ramsay (McSence Heatwise Ltd)

CLERK TO THE COMMITTEE

Martin Verity

SENIOR ASSISTANT CLERK

Jane-Claire Judson

ASSISTANT CLERK

Ian Cowan

LOCATION

Committee Room 4

Scottish Parliament

Local Government and Communities Committee

Wednesday 27 February 2008

[THE CONVENER *opened the meeting at 10:00*]

Decisions on Taking Business in Private

The Convener (Duncan McNeil): Good morning, and welcome to this meeting of the Local Government and Communities Committee. Item 1 is to decide whether to take in private item 3, which is consideration of the draft report of our inquiry into the planning application process at Menie estate. Do members agree to take item 3 in private?

Members indicated agreement.

The Convener: Do we further agree to take future consideration of draft reports on the inquiry in private?

Members indicated agreement.

Fuel Poverty

10:01

The Convener: Item 2 is oral evidence on fuel poverty. We are delighted to have with us Ian Brown, chief executive of Solas Scotland; Howard Marshall, director of BEST Energy; and Jim Ramsay, operations manager of McSence Heatwise Ltd. We welcome the opportunity to take evidence and ask you questions. You have the opportunity to make any brief introductory remarks.

Jim Ramsay (McSence Heatwise Ltd): I am happy to rest on my written submission.

The Convener: That is helpful—it gives us better use of our scheduled time.

You may be able to help us with an issue that has been discussed publicly and in the committee, which is how busy the sector is. How many systems do the companies that you serve expect to install in a typical week or month?

Jim Ramsay: Do you mean insulation or heating systems?

The Convener: I mean central heating systems, although I suppose that you could give us information about both.

Jim Ramsay: If I can tackle insulation first, we are not at present installing insulation measures under the central heating programme, principally because, due to the prices that are on offer, we would be carrying out that work at a loss. We are installing some insulation in relation to the warm deal, for which the prices are significantly beyond the CHP—in the order of 10 measures a week. We have the capacity to do much more than that, but the targets in the private sector are much reduced because of the social sector being passed over to local authorities and housing associations.

On heating, we are installing approximately 18 to 20 systems a week. We have the capacity to do more, but that capacity is not always taken up. We deliberately undershoot on the capacity that we make available so that we do not have capacity in place that ends up not being used.

The Convener: To clarify, in relation to the central heating programme, you are working below capacity. You could do more.

Jim Ramsay: We could do more but choose not to, in case we do not get a steady flow of work. There might be changes in the amount of work that is allocated or work might be cancelled. For example, we might go to a house and the client will decide not to go ahead with the installation.

The Convener: You raise a lot of issues and there are two more witnesses.

On the face of it, it is welcome that local authorities and housing associations are being used to build capacity and maintain the level of installations in order to meet the target that was announced by the Cabinet Secretary for Health and Wellbeing, Nicola Sturgeon, and the Minister for Communities and Sport, Stewart Maxwell. There seems to be a contradiction, however, in that we have been told that we are building capacity, yet, at the same time, the capacity in your sector is not being used to its fullest.

Jim Ramsay: There is available capacity in the sector, but the use of local authorities to address the waiting lists associated with CHP installation does not seem unreasonable, given that some of the installers who will provide that capacity might also be working on the central heating programme through Scottish Gas. The only caveat is that those installers should not give capacity to the local authority that could be given directly to Scottish Gas.

The Convener: What is the experience of the other witnesses?

Howard Marshall (BEST Energy): We deal just with insulation and we are currently working at about 50 per cent of the rate at which we were working two years ago on the central heating and warm deal programmes. We certainly have more capacity to do the work.

The Convener: The minister gave us the impression that that was because of the number of reinstallations and we accept that a significant number of replacement systems have been installed. Is it the case that, as a result, the requirement for insulation is reduced?

Howard Marshall: That is one of the arguments that has been put forward, but my concern, which I mentioned in my submission, is the very abrupt change from a 90 per cent rate of insulation installation under the previous managing agent to a 30 per cent rate under the new managing agent. That seems to be rather an abrupt change for structural changes in the programme.

The Convener: I am sure that others will want to pursue some of those questions.

Ian Brown (Solas Scotland): We are in exactly the same position as Howard Marshall—we have carried out only insulation work to date. We have been asked by one local authority to look at managing the central heating programme that it has been asked to undertake, to back up Scottish Gas. We are dabbling with that for the first time—we are going to manage that process on its behalf; carrying out the surveys and insulation work, and arranging for a subcontractor to install the central

heating systems. That is our first step in involvement in the central heating programme.

On the insulation side of things, our capacity has remained the same: largely unused by the central heating programme. We have carried out a handful of jobs, as opposed to hundreds under the previous managing agent. We still cover the same geographical area; the strange thing is that all the contractors' prices are the same—the prices are given to us. I have a concern about how work is allocated.

Alasdair Allan (Western Isles) (SNP): As you have indicated—and as has certainly been discussed in this committee before—a number of comments and concerns have been raised about the transition from the Eaga Partnership to Scottish Gas around October 2006. Will you comment on how you experienced that, and whether the transition raised problems for you?

Jim Ramsay: It certainly caused significant issues from McSence's point of view. We stood ready and able, as a contractor for the previous managing agent, to start installing from 1 October, but it was eight to nine weeks after that before work was allocated. Indeed, in the first weeks, the number of installations that we were given per week was in single figures. On one occasion, we were given as few as four installations. Previously, we had been set up so that the number of systems that we could install would be in double digits. Therefore, we had to support teams that were standing idle.

In my opinion, the transition period was inordinately long. Without understanding all the issues with which Scottish Gas was presented, I cannot be certain how that might have been shortened, but our experience seems to have been the norm. Most installers had capacity available during that time. McSence built up a measure of debt that required to be serviced—frankly, the alternative would have been to close down part of the business—but we believed that it was essential to support the central heating and warm deal programmes and we decided to tough it out.

If the managing agent changes again or some other significant change is made to the structure of the programme, the lead-in period should be longer. Greater co-operation should be required between the old and new managing agents. We should also put in place some means by which the intellectual property relating to the scheme can be transferred. I believe that the lack of such a transfer played a significant part in the waiting lists. Although Eaga maintained waiting lists, the lists included only names and addresses and did not include whether an eligibility check had been carried out. That was what Communities Scotland instructed at the time. When the lists were then

presented to Scottish Gas, they could not be used immediately. With some foresight, that problem could have been eradicated.

Alasdair Allan: Were the problems that installers experienced caused directly by the nine-week delay, or was the relationship with Scottish Gas problematic in any way?

Jim Ramsay: From the point of view of central heating programme installers, the relationship was initially problematic because the rates that were offered for installation were much lower than those that had been offered when Eaga was the managing agent. Under Scottish Gas, the standard price for an installation of six or seven radiators, including all additional items, was £1,153; under Eaga £1,400 to £1,500 was the norm for a similar system if all elements were included in the price. After information was presented to Scottish Gas, the company ultimately released a schedule of extras for items such as the provision of vertical flues, core cutting, soakaways and the cleaning out of houses. The average bill is now in the region of £1,400, which is much closer to what was enjoyed under Eaga for the same work. I will not deny that some margin can be made on that, but the margin is not significant. Over time, there will be many periods in which we simply break even on such work.

A situation in which the managing agent is the principal contractor is, I believe, an issue. I declare an interest as having been Eaga's Scottish operations manager for two years, but that gives me the benefit of some insight into what happened.

10:15

When the managing agency and the principal contractor are joined together, one body can dictate the market price. Under Eaga, there was a tendering process that reflected market rates, the different geographical areas, the competitive factor and so on, but that does not exist in the current situation—at least, it certainly does not do so to the same extent as previously.

It may well be that, because of the complexity of the programme, Scottish Gas did not fully understand all that needed to be done and did not understand the build-up unit of the price. Although that situation has latterly been redressed somewhat, the pricing is tight and it does not reflect the difference in geographical areas to the extent that it did previously.

The same situation applies to the insulation programme. The prices that were initially dictated to the market were about 70 per cent of those that had been enjoyed under Eaga. That was because the information from which the prices were created was largely English-based information because

that was where Centrica got most of its information from. However, it is accepted that English houses are different from Scottish houses; for example, cavity-wall gaps and room sizes are different. Using average sizes that are based on the English experience perhaps made prices lower than they would have been otherwise.

Again, the industry has challenged that situation. To be fair to Scottish Gas, it has listened and we have had many meetings with it. Part of our argument was accepted when Scottish Gas increased prices for the warm deal programme. However, the company left the CHP insulation prices as they were. Again, if we use the Eaga prices as a benchmark of 100 per cent, current warm deal prices are approximately 90 per cent of that and CHP prices are approximately 70 per cent of the Eaga price.

The latter fact is the reason why McSence does not do CHP insulation work. We tried to do that work because we were advised that there would be a review of prices. Given that not doing the work would have meant paying off installation teams, we did it. However, after we had done it for about two months, Scottish Gas paid us some £16,000 less than we would have got under Eaga or had we worked with another contractor, in particular local authorities.

Alasdair Allan: You have described what sounds like flaws or unrealistic aspects in the 2006 tendering process. If the managing agent were to change in future, what should happen next time round that did not happen in 2006?

The Convener: Can you answer that question, Mr Marshall?

Howard Marshall: Yes, but I want to answer it by going back to the original question, which was about the changeover. We must differentiate between the central heating programme and the warm deal programme. We must also remember that, in the last six months of Eaga's contract, no warm deal work was done at all. Prior to that, we were doing about 15,000 jobs a year. You could say, therefore, that 7,500 jobs were taken out of the system because the budget was reduced and money was given to local authorities.

Before Eaga's contract finished, we had six months of no warm deal; we then went into the transition with Scottish Gas and had another five months of no warm deal work. In addition, we had another six months of no central heating work. That meant that my company had to reduce its workforce by 66 per cent.

As regards the transition, I agree with Jim Ramsay's point about trying to get the two managing agents working in tandem, but the scope for that is extremely limited, given that under the Transfer of Undertakings (Protection of

Employment) Regulations 1981, the new contractor must take on the staff of the old contractor. I do not see how that problem can be overcome.

Ian Brown: Our experiences mirror those of Jim Ramsay and Howard Marshall. Our company hit the buffers in April of 2006, when, in effect, warm deal funding dried up overnight. That, combined with a significant reduction in the utility funding that was available at the time—which is a completely separate issue—led to our having to reduce our staff by about 40 per cent over that summer. We were hit extremely hard. We have not got back to the position that we were in before as regards the warm deal or the central heating scheme.

As I said in my submission, we do not have an appetite to pursue the central heating programme. We would be happy to participate if we got work locally, just so that we could keep in the system, but we are based in Dumbarton and our experience is that we tend to get work in places such as East Kilbride. When we are offered work far away in Fife, we turn it down because it is not economically viable for us to consider it. That is doubly galling. We are prepared to stick it out, but the work that we are offered makes it difficult for us to do so.

Over the years, the insulation companies, in particular, have experienced various changes to the schemes. We realise that when a scheme changes, there will always, for whatever reason, be a slow-down in work. The handover to Scottish Gas was exacerbated by the lack of warm deal work—I believe that additional work was done in the final quarter of the previous year.

The Convener: You have reminded us that two schemes are involved—one for insulation and one for central heating. When we took evidence from Scottish Gas in October, it told us that it had overcome many of the problems, that the situation was back on track and that it was not overburdened by great waiting list demands for central heating. Do you concur with that?

Jim Ramsay: From the information that we have, it would certainly seem that Scottish Gas is reporting that it does not have vast waiting lists for insulation. However, as Howard Marshall pointed out, the reduction in the number of insulation measures that are required when heating systems are installed seems to have been somewhat dramatic. Over the five years of the previous managing agent, the percentage of all heating installations that required associated insulation works hovered at around 90 per cent. The changeover whereby warm deal applications for social housing went to local authorities considerably reduced the burden on Scottish Gas to find and manage warm deal clients.

With insulation, there are a number of scenarios in which people work. For some time, we have been fortunate to enjoy good relationships with local authorities and, through them, to do a significant amount of warm deal insulation work. Having access to that work, which other companies have not had, has bolstered our business. However, even that is causing us difficulty at the moment, because the 2008-09 allocation of warm deal funding to local authorities has not yet been made, which is creating a problem as regards the on-going employment of installation teams. I urge the committee to look into why such budgetary allocations have not been made when we are only five weeks away from 1 April.

Jim Tolson (Dunfermline West) (LD): Good morning, gentlemen, and thank you for providing written statements in advance. They make very interesting reading and contain several recurring themes, some of which we have touched on this morning, including low funding, the effect on jobs in your own companies and the fact that some companies have even gone to the wall.

Reduced contracting despite high demand is of great concern to us because we are trying to ensure that we get an effective service to the public. Poorly facilitated liaison with Scottish Gas as the management agent seems to be another common theme, as is the level of grant remaining at £500. Perhaps the Government's review of the programme needs to ensure that a holistic and value-for-money solution is found for the taxpayer. However, I would welcome your views about whether the solution should include, for example, means testing.

It has been put to me a few times by constituents that when it comes to the warm deal and the central heating programme, the public can get a better deal on a pound-for-pound basis by using a private contractor. Yet you all say in one way or another that the level of funding that you receive is too low. Will you give me feedback on that point too?

Ian Brown: I would be surprised if an individual could do better than the deals offered through the warm deal, for example, because priority route customers do not pay for such deals, although they might have to pay an excess if the house is particularly large. I can only speak for Solas, but we endeavour to include utility funding wherever appropriate. Scottish Gas has made it easier for us to do that.

It is legitimate for us to apply energy efficiency commitment—EEC—funding, or carbon emissions reduction target—CERT—funding, as it will be from April, to one of the measures, which is normally cavity wall insulation, and provide the other measures through the warm deal. In most

cases, the £500 grant is sufficient to do that, but there are occasions when it is not. I urge the committee to consider that the £500 limit should perhaps be a £500 average. The numbers would probably remain the same, but it would mean that if we had the opportunity to carry out two significant main measures in a house, as well as significant draught proofing, we could go ahead and do it. That might cost £650 in one house, but other houses out there require only minimal draught proofing, which might cost £100 or £150.

In our experience of the warm deal programme in social housing over the past couple of years, we have been asked to manage a grant down to £320 per house. Although we might not choose such a figure, I imagine that the contractor would be able to manage successfully with an average grant of £500.

Jim Ramsay: Not all installers have access to EEC and, ultimately, CERT funding. Although the ability to use such funding exists, it is not available to everybody so there is something of an uneven playing field. I suggested in my submission that CERT funding could be put directly into the programme so that everybody—installers and clients alike—could feel the benefits of the funding.

It is a matter of record that the £500 grant limit has not changed for some time, but new installation prices have gone up. There are sometimes two material price increases of 8 or 9 per cent a year and there are also labour price increases. Although work is still being done under the warm deal, the number of measures has reduced progressively over time. A number of parliamentary questions have been asked on the subject.

Going to a property but not funding all the insulation work required does not serve the fuel poverty reduction programmes as well as it should do. Installing heating and the proper insulation at the same time is the best way to keep the house warm and ensure that heating bills reduce. Therefore, raising the level of grant needs to be considered.

Some individuals may think that they could get better deals on the open market because, depending on where utility funding comes from and what requires to get done on the house, significant grants are available. Bear it in mind that the CHP is intended to provide all the insulation that is required in that house at the time that it is put in. If there could be some relaxation in respect of the calculation of the warm deal grant, there would be no need for them to go to the private market.

10:30

The Convener: Does Mr Marshall want to add anything that he feels has been missed?

Howard Marshall: Mr Tolson raised the issue of means testing. As I said in my submission, there are definite inequities between the people who qualify for the £125 grant and the ones who qualify for the full £500 grant or get a central heating system. In my home town of Largs, with which I am sure the deputy convener is familiar, a lot of elderly people live in large homes that are hard to heat, but they qualify for only the £125 grant. Our experience is that only about 10 per cent of the people who qualify for that grant take it up.

Jim Tolson: I am glad that we came back to means testing because, as you rightly point out, there are some anomalies. We hope that once the Government has examined the matter it will produce an option that represents much better value for money for the taxpayer. My information is that it can sometimes be hundreds of pounds cheaper for individuals to have a central heating system installed privately rather than through the scheme. We must demonstrate value for money. If there are differences, we must make them clear. Otherwise, it looks like the scheme is failing the taxpayer.

Patricia Ferguson (Glasgow Maryhill) (Lab): Good morning, gentlemen. I echo Jim Tolson's thanks to you for your submissions, which are interesting. As you know—we have taken evidence on the issue—the Government is undertaking a review of the central heating programme and the warm deal. As suppliers, have you been invited to give your views?

Jim Ramsay: Certainly not formally—I can say no more than that. We have regular discussions with Scottish Gas on issues related to the schemes and we have made our views known to the Government through MSPs who sit on this committee, but we have not been asked to make a formal presentation.

The Convener: A yes or no will do with this question.

Ian Brown: No.

Patricia Ferguson: If you were asked to give your views to ministers, what advice would you give them about what needs to happen now?

Jim Ramsay: If I can go back to Alasdair Allan's question about the tendering process, I think that the process requires to be examined. The scheme put forward by Communities Scotland was overly complex. It tried to address every single issue that had come up over the previous five years, whether it had come up once or on many occasions. I understand that Communities Scotland's remit is to get best value for money, but an overly complex

programme does not do that. In my opinion, it resulted in too few people responding to the tender and, specifically, in the previous managing agent effectively saying that it would not be able to deliver the programme under those rules of engagement. Scottish Gas believed that it could. However, whether it is Scottish Gas or any other company, awarding the contract to the last and only company with a competent tender seems somewhat strange.

Subsequently, Scottish Gas has, in understanding the complexity of the tender that was put forward, found it more and more difficult to operate. The tendering process needs to be examined. I would disallow the managing agent from being the principal contractor. If the managing agent requires to go out to the marketplace for tenders for the work, prices will be based on market conditions—competitive prices—and will reflect geographical differences. Under Eaga, at times there were 10 to 12 contractors competing for business in the same area. If such a process does not produce competitive pricing, I find it difficult to understand what will.

The Convener: Would Mr Marshall like to respond to that? What advice would you give, if not on tendering?

Howard Marshall: There has been a lot of talk this morning about retendering. As Ian Brown mentioned, we have not yet survived the previous retendering process. Retendering is the last thing that I would like to see. I would prefer to work within the existing framework to try to improve it. The CERT programme is starting in a few months' time, and it is another big programme that could impact on any tendering exercise. I prefer that no retendering takes place within the next two years.

Ian Brown: I echo Howard Marshall's views—any change within a very short time would be almost catastrophic for the industry. The planning of any changes and their implementation over a significant period is crucial before any handover. I do not underestimate the challenge in achieving that—it should be seamless, if possible. I urge that there should be some sort of parity between the warm deal and the central heating programme. If the warm deal is a means-tested benefit, perhaps the central heating programme should be, too.

The central heating programme seems to have slipped into a replacement programme—it will shortly be a replacement programme for 25 per cent of households in Scotland, with no end in sight. That detracts from the aim of ending fuel poverty. I understand how we have got here, but some work must be done to try to refocus on the fuel poor, particularly in relation to the warm deal and central heating programme.

Jim Ramsay: Just for the record, I was answering the question of what we would do if we were to retender. I am not anxious for retendering to take place at the current time. I follow on from where we were in October 2006.

Patricia Ferguson: I was trying to get to the nub of how we make the scheme better, rather than anything to do with the process, but we have enough on that.

Mr Brown, in both your written evidence and your comments today you mentioned that, for various reasons, you have often had the capacity but not the work. In your written evidence you say that you believe that other contractors have had significant volumes of work, but you are not aware of how it was allocated. Do how people end up with the work and where the work is going need to be more transparent in the system?

Ian Brown: I believe so. Like many other contractors, we are in a difficult position, because the pricing structure of the central heating programme—the insulation part of which we are involved with—makes it very unattractive. We went through the same pain in relation to the warm deal programme in the early days, and we stayed in to argue the case. The contractors in Scotland won that argument, and we had no complaints about the level of funding or the level of prices to which we were working under the warm deal programme.

There is a huge difference between the prices in the warm deal and the prices in the central heating programme, yet we are working to specifications that are largely the same. There is an obvious inequality. The arguments will probably be commercial. Scottish Gas is our employer, so I understand that it will have a position on that. However, it is a difficult argument if the programme is willing to pay £400 for one loft and £280 for another when they are identical lofts and the workload is the same.

We would like to do more work for the central heating programme, but at the moment I am not knocking on Scottish Gas's door and shouting for it. We are taking what we are given, which is very little, but it does not tend to be local work. We would be delighted to do more work if we had parity in prices. At that point, I would say, "Why are we travelling outwith our area to do work when others are obviously travelling into our area?"

Kenneth Gibson (Cunninghame North) (SNP): All three submissions are absolutely first class. It is important to note the many common themes, which are significant if we are to make progress.

I was going to ask a similar question to Patricia Ferguson's about your being invited to participate in the review. However, noting the answers that we have heard, have you attempted collectively to

initiate any discussions with the minister or do you propose to do that without regard to the review?

Jim Ramsay: For my part, I wrote directly to Stewart Maxwell and, as a result, had a formal meeting with Communities Scotland, which took information on his behalf. We continue to seek dialogue with MSPs and ministers to put forward our views, and we would welcome the opportunity to meet the minister and discuss our concerns and suggestions for how we might improve the scheme for all stakeholders.

Kenneth Gibson: One of the things—

The Convener: What about the other witnesses?

Kenneth Gibson: I thought that Mr Ramsay might be speaking for everyone.

Ian Brown: Jim Ramsay undoubtedly speaks for us, but I add that we are all members of Energy Action Scotland and our views are often relayed through that organisation to the managing agent, Communities Scotland and ministers. We use Energy Action Scotland as a conduit in many cases.

Howard Marshall: We are also members of the National Insulation Association, which wrote to the minister in November, when the additional funding was announced, to express its concern that the funding would not be concentrated purely on heating and that it would get the numbers up at the expense of insulation. That is the only process of which I am aware.

Kenneth Gibson: One of my concerns is that, as we know from answers to parliamentary questions—Jim Ramsay touched on this—only about 1 per cent of the 15,000 insulation jobs cover all the measures. I am sure that you agree that that is a concern.

Energy Action Scotland has advised us in previous evidence that £750 should be the grant level. Mr Brown said in his submission that the grant should be increased by about £100, and he would call it an average rather than a limit. Over what ballpark range should the level for insulation be set? Averages are sometimes difficult to manage.

Ian Brown: The point is that, normally, no two houses that we go to are the same. The warm deal grant has to pay for the initial survey, and potentially for draught proofing, loft and cavity wall insulation, and pipes and tanks in lofts, the cost of which might not be insignificant. Tenement properties in Glasgow can have massive lofts and pipe runs. Insulating pipes takes a relatively long time. My understanding is that CERT funding can normally take cavity wall insulation out of the warm deal, although I take Jim Ramsay's point that not everybody can access that funding, so we need to examine that.

If we take out cavity wall insulation, draught proofing and loft insulation can generally be carried out for an average grant of about £600. There are exceptions; there are big houses that need work, and we would like to be able to do it. As Howard Marshall suggested, there are elderly people living alone in relatively large houses that they cannot afford to heat properly, because of the lack of insulation. It is crazy for us to identify them but not follow through and complete the work because of an artificial limit.

10:45

Kenneth Gibson: It is interesting that everyone has made it clear that geography is an issue because Scottish Gas seems to allocate jobs randomly. The island of Arran, which is in my constituency, has approved contractors, but jobs there are sometimes given to people on the mainland, who obviously have to deal with issues such as the times of ferries. Have you had any meetings or discussions with Scottish Gas—I am sure you have—on the geographical issue to try to rationalise and introduce common sense into the allocation of jobs?

Ian Brown: We have not had any meetings, but we are asked fairly regularly what postcodes we cover, and we provide that information.

Kenneth Gibson: Obviously, the allocated postcodes can vary extensively.

Ian Brown: Our company is happy to take work in all G postcodes, which is the whole of Glasgow. For the central heating work, we will take postcodes PA1 to PA19, which excludes Rothesay and the islands and Argyll. However, that choice reflects what we get paid. We cannot afford to do work that means travelling to Argyll or Rothesay, or to Bute generally.

Kenneth Gibson: The issue of transparency has been raised to a significant extent. I take a great interest in warm zones; I had a members' business debate on them on 27 September 2007. Would it be more cost effective for one contractor or a group of contractors to deliver insulation and central heating systems to specific areas, rather than do jobs here, there and everywhere?

Jim Ramsay: Multiple insulation jobs can be done in a day. There would be pricing benefits if work was allocated to give the smallest travel distance. That might apply less to the installation of heating systems because, even in the best of circumstances, it takes a day to install a heating system, and it might even take two or three days, depending on the complexity. Travel distance is therefore less of an issue when installing heating systems, but there may still be some benefits from having reduced travel distances.

On the allocation of jobs, Scottish Gas fairly regularly asks installers which postcode areas they are prepared to operate in, and we provide that information. However, it seems that the information does not always get to the people who allocate the work. To reinforce what Ian Brown said, we operate mainly in the east, but we have been allocated work in, for example, Irvine and Ayr. We have to send that work back, of course, because it is not economical for us to do it.

Economy has become more of an issue, particularly with warm deal work, because of the volumes of that work that Scottish Gas does. The previous managing agent did both social and private warm deal work, and the number of jobs came to about 20,000 a year. It was easier then to group work together and reduce travel distances. However, now that the number of jobs is down to 5,000 a year, it is more difficult to pool work geographically. In such circumstances, it would be better to have warm zones, as you suggested.

Howard Marshall: I just want to add that we are the contractor that goes from the mainland to do the work on Arran.

You asked whether we had had any meetings with Scottish Gas to discuss the allocation of jobs. Although I am not defending Scottish Gas in any shape or form, it is important to say that Scottish Gas appointed a manager last year who, unfortunately, was taken very ill shortly thereafter; he has been back in post for only about a month. We met him to discuss a number of issues, and one of the issues that he took on board to sort out was the allocation of jobs. We were given an undertaking that that will be sorted out, but it was given only in the past few weeks.

Kenneth Gibson: I have one final question—I know that the convener wants to move on. The answer to a parliamentary question that I submitted showed how the warm deal grant has been eroded by inflation, going down from an initial £500 to £420 in real terms. Given what the written submissions say about wage increases and material costs, what do you think the ballpark figure is for the real-terms decrease in the warm deal grant over the past eight or nine years? It appears to me that it is higher than the retail prices index figure, which would obviously impact on your ability to deliver.

The Convener: Quick answers, please.

Jim Ramsay: I believe that the grant should be between £750 and £800. In addition, it has been a considerable time since we provided more than one main measure with the £500 grant that is currently available.

Ian Brown: I agree that we have gone from being able to do everything in some cases, to being able to do one main measure with draught

proofing, to being able to do one main measure. Those are significant steps.

On warm zones—the term is used in England and effectively is owned by National Energy Action—Solas Scotland is trying to come up with an equivalent measure, which we hope to launch in West Dunbartonshire in the new financial year, and also in Inverclyde. Watch this space.

Howard Marshall: Energy Action Scotland consulted quite widely before it came up with the £750 figure. We all contributed to that consultation, so that is the figure that the industry believes is appropriate.

The Convener: Before I bring in David McLetchie, I seek clarification on the representations that were made, individually and collectively, to various ministers. Mr Ramsay, can you remind me which ministers you wrote to?

Jim Ramsay: Specifically, Stewart Maxwell and Nicola Sturgeon.

The Convener: So you wrote to the cabinet secretary.

Jim Ramsay: Yes.

The Convener: What was her response?

Jim Ramsay: The response letter stated that Communities Scotland would meet us to hear our concerns and take information.

The Convener: Did you request a meeting with the cabinet secretary?

Jim Ramsay: Yes.

The Convener: But she referred you to Communities Scotland.

Jim Ramsay: Yes.

The Convener: Did you request a meeting with Stewart Maxwell?

Jim Ramsay: Yes.

The Convener: But he referred you to Communities Scotland.

Jim Ramsay: Yes.

The Convener: Thank you.

Mr Howard, you wrote on behalf of the national association of insulators—

Howard Marshall: The organisation is the National Insulation Association.

The Convener: On behalf of the association, you wrote in November in what terms?

Howard Marshall: The association wrote on 23 November to express its concern that the new funding should be used for insulation work as well as central heating.

The Convener: Who did you write to?

Howard Marshall: Stewart Maxwell and Nicola Sturgeon.

The Convener: Did you receive a response?

Howard Marshall: We received a response on 3 January from Communities Scotland.

The Convener: Not from the ministers.

Howard Marshall: No.

The Convener: Thank you.

David McLetchie (Edinburgh Pentlands) (Con): Good morning, gentlemen. I want to ask about delays in payments to subcontractors. Mr Ramsay's submission mentions delays of up to 10 months in the settlement of invoices by Scottish Gas. Has that situation improved, or are there still payment problems?

Jim Ramsay: There are still payment problems. As of this morning, of our invoices that have been outstanding for more than 30 days, the value of those that have been outstanding for more than 120 days is £60,000. The sum outstanding has reduced over time, but it is still significant for our business. Our debtor days have been as high as more than three times what we would normally accept. Both McSence Heatwise and A & R Hepburn (Engineering) Ltd—a company that we have bought into—had to take on significant loans, which were a significant debt burden, to see us through the period when payment delays were at their worst.

David McLetchie: After a central heating system has been installed and the work has been completed by the contractor's workmen and the contractor is ready to submit an invoice, does the work need to be inspected before the invoice is approved for payment?

Jim Ramsay: Yes.

David McLetchie: Is there a delay in the work being inspected and therefore certified for payment? Does that cause a delay in the process, or does the problem occur subsequent to that?

Jim Ramsay: That situation has been worse than it is at present. It would be fair to say that significant effort is going into reducing the time period between installation and examination of the work. In fact, recent communications have provided a further payment incentive to people who do post-installation inspections to get them done within the required timescales.

David McLetchie: So overall there are signs of improvement in the situation that you described, and the payment process is speeding up.

Jim Ramsay: There are signs of improvement, but the situation is still not good.

David McLetchie: I move on to a point that Mr Brown raised earlier about the central heating programme becoming a replacement programme rather than a programme for new installations. From memory, the sort of figures that have been mentioned indicate that about 75 or 80 per cent of installations are replacements, rather than new systems in homes that previously did not have central heating. Is that a result of changes in the criteria for what qualifies for replacement? Are the existing criteria being applied rigorously or more leniently? Why is replacement becoming such a dominant aspect of the scheme?

Ian Brown: I must apologise—remember that Solas Scotland is an insulation contractor, not a heating contractor, so I am looking at the situation from the outside, as an interested party. My understanding is that the scheme has changed through time to be a replacement scheme. It is now part of the specification that if an existing system becomes defective, it can be replaced. As I understand it, that was not how the scheme started out. If only 20 per cent of the scheme is now new systems, yet when the scheme started almost every system was new, it suggests that the scheme has largely achieved what it set out to achieve. There will always be more people who become 60 and do not have a system and so qualify, which might account for a significant chunk of the 20 per cent. The question is whether there is any possibility of an end in sight for the scheme, and whether it will become a replacement scheme for everybody's central heating system once they become 60 years old. That would no longer be a fuel poverty scheme—it would be a central heating programme for Scotland.

David McLetchie: Mr Ramsay, perhaps you would like to comment on the change in the nature—

Ian Brown: Mr Ramsay is probably quite happy about it.

David McLetchie: No doubt—there would be continuous work. However, I ask Mr Ramsay to be as detached as I know he can be.

Jim Ramsay: There is no doubt that the proportion of replacements has increased significantly, even during the time that I have been involved in helping to deliver the scheme. I cannot say for certain, but that may have come about because those who principally were in need have largely been dealt with. However, as the scheme has become more popular, and the conditions under which systems can be requested have become more widely publicised, more people have been in a position to apply for and successfully get a replacement system.

The scheme covers inefficient systems and those that are uneconomical to repair. Perhaps the

current programme should examine why there are systems that are uneconomical to repair. It might be because they have not been maintained during their lifetime. Maybe the programme should consider not just installing systems but including an on-going maintenance programme. We invest a significant amount of money in the schemes annually, and simply putting them in the hands of people who do not have a maintenance and repair programme might not be the best use of all that money.

11:00

David McLetchie: There are obviously budgetary limits on the scheme. Within those limits, should the Government modify the scheme to incorporate a maintenance programme to deal with all the replacement systems?

Jim Ramsay: I would rather that the Government found additional funding to pay for that but, if there has to be a cap, some of the money should be allocated to a maintenance programme.

Johann Lamont (Glasgow Pollok) (Lab): A range of issues has arisen. One of the headline issues has been that the length of the waiting list for the central heating programme has increased over time. You seem to be saying that, at the same time, there is capacity that is not being used to address that and, indeed, more worryingly, organisations have gone to the wall for want of work or because work has been costed unrealistically.

You have made the point that some of you are looking at the central heating programme from the outside. You will be aware that the minister announced extra funding for it in November 2007. Has that had any effect on your work? Will the release of that funding mean that the revised target of an additional 1,600 installations—making a total of 15,000 installations this financial year—can be met? Is that a realistic target? You have expressed reservations about where the money went. Is it realistic for the Government to expect that the release of £7 million will make the difference that it suggests?

Howard Marshall: That funding has made no difference to us as an organisation because it has gone to local authorities and we do not get involved in central heating. As Ian Brown said, Solas is considering doing work for one local authority, but I am not in a position to say whether that investment will make any difference to the number of installations that are carried out because we have no direct involvement with the central heating programme.

Jim Ramsay: As far as McSence is concerned, that funding has had no impact on us. In my

submission to Nicola Sturgeon, I suggested that some of the £7 million could be used to equalise the pricing of insulation work carried out under the CHP and insulation work carried out under the warm deal, which would help to address capacity issues in that area.

The fact that the £7 million has been directed towards local authorities means that it might not address the backlogs. I say that because, in general, local authorities work to specifications that are different from those used in the CHP. They will probably have to put in framework agreements to deal with installers. One company that I know is interested in taking such local authority work will not start installation work until the beginning of March. The timescale might be too short for the additional funding to address a backlog by the end of March. However, I do not know where Scottish Gas is with its programmes or what work it has in progress with other installers.

Ian Brown: I would be extremely surprised if the extra money could achieve the desired result in the timescale, especially given that local authorities are only starting to look at the work—they would have been invited to do that not in November or December but in January and into February. I fully appreciate Scottish Gas's problems because the completion of a central heating installation involves a number of factors, including insulation work, for example. It would be terrific if additional work on the heating programme and additional work for insulation contractors could be achieved by the magical 31 March, but that will be difficult to do at this time of year, because the insulation industry is always at its busiest in the winter months through to the end of March as a result of the 31 March cut-off. To add a significant number of additional installations at this time of year makes the target doubly difficult to achieve.

Johann Lamont: I presume that, when ministers were considering how to address the problem, they were not in dialogue with you on how best to do that. Otherwise, you would not have given us that answer.

On the way in which the programme has changed, the transition issues have been well rehearsed, but have the changes had a disproportionate impact on social enterprises? If, as has been pointed out, what was a fuel poverty programme is now a central heating programme in which the concern is simply to install central heating systems, we should perhaps just go for the lowest price. However, I presume that social enterprises provided added value in their approach, which included the provision of energy advice. In driving down costs and increasing indebtedness, has there been a disproportionate impact on the social enterprise organisations that operate in the field?

Ian Brown: I suggest that that is likely. The contractors who will consider installing central heating systems at the prices that are being offered are those that have the lowest overheads and that can drive down their overheads by driving down the price of the materials that they purchase. Social enterprises do not normally fit into that category. Whereas we can carry out work under the warm deal programme reasonably comfortably—we would be happy to do as much work as we were given—we would not choose to carry out work under the central heating programme for the reasons that I have previously given. I imagine that most social enterprises throughout Scotland are in a similar position. Most social enterprises would like to consider themselves on a par with any other contractor because that is how our performance is measured. However, the very nature of our business means that we are unlikely to be up there competing with the largest contractors.

Jim Ramsay: As everyone knows, McSence is a significant social enterprise. Operating as a social enterprise and as a registered charity puts us at a disadvantage in some ways, not least of which is that it is difficult for us to retain profits within our operating companies. All our profits are gift aided to our charitable organisation for distribution in regeneration programmes in Midlothian. Therefore, when we have had cash-flow difficulties, we have not been able to rely on retained profits to support us but have had to take out overdrafts and loans at significant cost.

In addition, our costs may not necessarily be as low as those of other contractors because we seek to use fair employment practices. Rather than employ people at the minimum wage, we always pay above that rate. Supporting the business during a downturn is more difficult for an organisation such as ours simply because we are socially committed.

Howard Marshall: I want to pick up on the point that was made about the impact on the advice that is provided to people. Over a number of years, organisations such as ours have built up expertise in the delivery of energy advice. Until the end of 2005, such advice was delivered in two stages under the central heating programme. We gave certain elements of energy advice before the installation and we returned to provide further advice afterwards. I very much doubt whether the additional funding that was given to local authorities includes provision for any energy advice. I could be wrong on that, but I doubt it. There is general concern in the insulation industry that energy advice has been downgraded within the central heating programme.

Johann Lamont: I have a final brief question. If you were offered a meeting with a minister to

discuss these issues, would you find that useful? As opposed to meeting Communities Scotland, would it be useful to have that direct dialogue?

Jim Ramsay: Yes, absolutely.

Bob Doris (Glasgow) (SNP): Good morning, gentlemen. It is always good to go last because most of the questions that I have thought of asking tend to have been asked. However, there are still one or two questions that I want to go back to.

As a general reflection, I think that the more I hear about the central heating programme and the warm deal, the more I think that they have been consistently underperforming with occasional dips in performance. That seems to be where we are with the programmes.

I know that much of today's discussion has been on the warm deal, but Mr McLetchie asked previously about the increase in the number of replacement systems that are provided under the central heating programme. The Solas submission recommends that the central heating programme should be amended so that

"Recipients must sign-up to maintenance/replacement contract".

It also suggests that that could be means tested, which is a possibility that the committee has considered.

When the programme changed from a fuel poverty initiative to a central heating programme, perhaps there was not enough strategic thought given to the potential legacy of the programme. The programme may now become a financial liability for the Government because it will have to replace the original central heating systems at some point. I am interested to know from all three witnesses how they think a compulsory system of repair and maintenance would operate in practice.

Ian Brown: I have not attempted to design a central heating programme. As I said, as far as the central heating programme is concerned, I am an interested amateur. However, the maintenance of central heating systems is probably paramount in ensuring that they last. If the Scottish Government is going to take responsibility for the systems almost indefinitely, surely maintenance and safety checks should be built into the programme.

As I understand it, the installation and the first-year service or maintenance check are included in the programme and, thereafter, the recipient is on their own. If the Government accepted continuing liability, which means that it would replace systems if they failed after, say, 10 years, then a maintenance programme, funded either by the recipient or by the Government, would ensure that the systems performed to their maximum throughout their lifetimes, which would be significantly enhanced by proper servicing. That all makes sense to me.

If the Government moved to a means-tested programme in which it fitted a system only if people could not afford to do that themselves, it would only be reasonable to assume that such people would be unlikely to want to, or be able to, pay for the maintenance of the system. A means-tested programme should include provision for continuing maintenance.

Bob Doris: Do the other two witnesses want to comment?

Jim Ramsay: On the programme being means tested—

Bob Doris: My reference was to means testing for the repair and maintenance of central heating systems and not for their installation.

Jim Ramsay: Even if means testing was restricted to the servicing of installed systems, it could be difficult to manage that. However, I earnestly believe that a built-in maintenance programme is necessary to maintain the installed asset. In addition, making the installation company responsible for the maintenance and repair of the system would ensure that it had continuing work. Such a company would know the system, the locality and the individuals concerned, and that knowledge would bring benefits.

Bob Doris: Another Solas recommendation for the central heating programme is:

“Pay insulation contractor to carry out an insulation survey on every CH job and to generate work order prior to installation of measures”.

I am keen to know a little bit more about that. A concern that I have about Scottish Gas is that it visits a property on two separate occasions for the installation programme. For example, a Scottish Gas team goes out to a property, screens it and says, “Yes, we could put in a combination boiler and four radiators here,” and then, before installation, a second team goes out and says, “Right. This is how we’re going to do it.”

If the warm deal and central heating programmes were dovetailed together to ensure that they were efficient for both the taxpayer and the businesses that deliver the programmes, how many visits would then have to be made to a property? How do you envisage the installation contractor fitting into the overall process?

11:15

Ian Brown: First, my understanding is that the initial visit to which you referred is done by what we can call a surveyor, who checks that the client qualifies for the system and agrees what kind of system will go in. I am not sure whether that person needs to be a gas-qualified engineer in order to decide on the particular specifications. After the initial visit, the job is allocated to a

heating contractor, who goes to the property to find out what the job entails. That is the installing contractor’s responsibility, so they will always be out doing that.

The first visit to a property gathers information about insulation works—the raft of measures that should be carried out. It is our experience that the quality of the initial survey, from an insulation point of view, is not what it should be. I believe that the other witnesses and contractors throughout Scotland share that view. A further problem is that the information that is gathered cannot currently be shared with the insulation contractor.

For example, let us say that somebody from Scottish Gas goes into the Glasgow tenement property that I talked about earlier and establishes that it needs a top-up of, say, 200mm of loft insulation over 85m². They will tell us about that, but they will not tell us that there are 60m of pipes and six tanks in the loft. That means that when we come to programme the work, it will take us perhaps three or four hours to do the job because of the pipes and tanks, as opposed to an hour and a half if the job was just simple loft insulation. That kind of information about pipes and tanks is not passed on to us.

I understand that that is an administrative problem. I am sure that Scottish Gas would like to pass on such information, but that does not happen in practice. That is why I said in my submission that we should be responsible for doing the insulation survey. In many instances, we turn up to do loft insulation but find that cavity wall insulation could be done, too.

The problem is not only the lack of quality of the initial insulation survey of a property but the inability to provide us with a full picture of the situation from the information that has been gathered. I am not saying that the information is not gathered, but there seems to be a bottleneck in passing it down to us.

Bob Doris: Would it be possible to gather and share the information more effectively with people such as you?

Ian Brown: That would solve our problems, from an insulation point of view. There would need to be an initial visit to gather all the insulation information, then the heating contractor would make his technical visit to decide what to do on the day.

The Convener: Thank you for your written submissions and for your attendance this morning, which has been helpful.

We will move into private session for item 3.

11:17

Meeting continued in private until 13:07.

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