

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 21 May 2008

Session 3

£5.00

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

15th 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:

Nicola Sturgeon (Deputy First Minister and Cabinet Secretary for Health and Wellbeing)

CLERK TO THE COMMITTEE

Martin Verity

SENIOR ASSISTANT CLERK

Jane-Claire Judson

ASSISTANT CLERK

Ian Cowan

LOCATION

Committee Room 6

Scottish Parliament

Local Government and Communities Committee

Wednesday 21 May 2008

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

Social Housing

The Convener (Duncan McNeil): Good morning and welcome to the 15th meeting in 2008 of the Local Government and Communities Committee. I remind everyone to switch off their mobile phones and BlackBerrys.

Under agenda item 1, on social housing, the committee will take oral evidence from the Cabinet Secretary for Health and Wellbeing, Nicola Sturgeon MSP, on developments in support for new council housing and in housing regulation since the abolition of Communities Scotland. I welcome the cabinet secretary to the meeting.

I also welcome Karen Watt, chief executive of the Scottish Housing Regulator; Stephen Devine, team leader in the Scottish Government's social housing quality branch; and William Fleming, a branch head in the Scottish Government's social housing division.

I invite the cabinet secretary to make some opening remarks.

The Deputy First Minister and Cabinet Secretary for Health and Wellbeing (Nicola Sturgeon): Thank you, convener. I am pleased to be here. I do not intend to take up much of the committee's time with opening remarks. I think it would be better to leave most of the time for questions and discussion. However, I will make one or two points by way of introduction.

I am pleased to have the opportunity to share with the committee more of the Government's thinking about our plans, which are backed by £25 million of investment, to kick-start a new generation of council housing in Scotland. I know that the committee will be interested to understand a bit more of the detail around that. We are discussing with the Convention of Scottish Local Authorities the arrangements for and principles of the allocation of that funding, but I am happy to bring the committee up to date with current thinking.

I will also be pleased to discuss regulation since the abolition of Communities Scotland. I will ask Karen Watt to deal with any questions regarding the operation of the Scottish Housing Regulator because, as the committee knows, it operates

independently of ministers. I am sure that all members of the committee agree that that is entirely appropriate.

My final point is about looking to the future. I know that the committee has a broad interest in all matters that relate to the Government's housing policy, notwithstanding the fact that we will focus on two particular issues today. The committee will be interested to know that, following the successful consultation on the proposals in "Firm Foundations: The Future of Housing in Scotland", I will make a statement to the Parliament before the summer recess to set out how we intend to take forward the initiatives in the consultation paper. However, I am more than happy to explore any of the themes in "Firm Foundations" today, as far as I am able to do so.

With those comments, convener, I am happy to move straight to questions.

The Convener: That is helpful. It gives the committee the opportunity to spend more time on questions and discussion with you.

I will kick off. You mentioned the £25 million. How many council houses will that enable councils to build?

Nicola Sturgeon: As you know, we made the suggestion in the "Firm Foundations" proposals, and it attracted overwhelming support in the responses. I will say a wee bit more about our developing thinking on the allocation of the money.

It is clear that the way in which we allocate the money will determine the number of houses that it is possible to build. We are certainly talking about at least several hundred. I made it clear that we are talking about kick-starting a new generation of council house building, but committee members will be aware—and must keep it in mind—that we are starting from a very low base. In the past number of years, the princely sum of six council houses were built in Scotland, compared with 7,500 in 1980. The base reduced significantly in recent years and we are starting from that low base.

The £25 million investment is very much a start, but it is a positive start. I believe that local authorities have a role to play. Housing associations will continue to be the principal providers of social housing, but in the next few years councils can start to play a significant role again in the provision of social rented housing.

The Convener: What do you see as the difference between a council house and a housing association house?

Nicola Sturgeon: For the tenant, I am sure that there is no appreciable difference. However, I believe—and I hope that we can agree on this—that, given the extent of the housing need that we

face in Scotland, we must ensure that we have all hands on deck in meeting that need. That is why it is responsible and sensible to see local authorities as having a role to play, as partners with the Government and housing associations, in increasing the rate of house building, including of houses for social rent, so that as a country we can meet the growing need in a way that we perhaps have not done in recent years.

The Convener: Does the policy actually identify need? What happens when councils have money but not necessarily the greatest need?

Nicola Sturgeon: I can share with the committee some initial thinking about the allocation of the £25 million, which might be helpful in structuring future discussions. Before I do so, I want to make an important point. We are looking to determine the arrangements around allocation in partnership with COSLA. We are already in discussion with COSLA about it, and what I am about to say is a statement of current thinking rather than the final version. It is important that we work together with our partners in local authorities. I know that they share that view—they are positive about the initiative and want to be fully involved.

We have identified a number of key principles that may guide us in deciding the allocation, although before I describe them, I should clarify what should be obvious: we are looking to use the £25 million to incentivise councils to build council houses and not directly to fund council house building.

The first principle is that we are seeking to secure the maximum number of extra units in the right places for the best value for money per unit. We will definitely look at councils that have retained their council housing stock, for reasons that I am happy to go into in more detail later, and we will look to focus on councils that have prudential borrowing capacity or other resources of their own that they can bring to the table. We will also look to focus on areas that have a particular housing need and are facing particular pressures in meeting the 2012 homelessness target.

We will also look to councils that have well-developed plans for new build. However, it is likely that we will seek to allocate the money in more than one tranche because, in fairness to councils, some have more developed plans than others. It would be unfair to disadvantage those who are thinking about building new council houses only now, as a result of our recent announcement.

The Convener: That is helpful.

Jim Tolson (Dunfermline West) (LD): I want to touch on a couple of areas, cabinet secretary. You briefly mentioned the first, which relates to the

right to buy. For a long time, I have been of the opinion that the right to buy should be reformed. It is great that people have had a chance to access affordable housing and to live in mixed communities—that has been largely successful—but one result, which you partly outlined, is the huge demand for social housing in Scotland. The need has not been met, and I understand that one way in which the Government intends to tackle it is through reform of the right-to-buy process.

I am glad that the Government has taken a major step forward by saying that it will put a bar on sales of new properties. However, given the great need and some of the targets that exist, including the 2012 homelessness target, will the Government consider going further? Some areas may need more changes than others, so will your reform of the right to buy give local authorities more flexibility and powers to protect their existing stock so that they can suit local needs, enable them to build up their stock and help to overcome the huge deficit?

Secondly, I have not seen any real mention of regeneration in “Firm Foundations”, so what is the Government’s focus? Evidence from my area suggests that there has not been much investment in regeneration under this Government, and I am sure that that is the case across Scotland. Is that part of the £1.7 million saving from Communities Scotland?

Nicola Sturgeon: Thanks for those questions. First, I concur with the points that you made on the right to buy. On whether we are considering going further, the short answer is yes. I have no doubt that the £25 million is an important incentive for councils to start to build council houses again, but an even more important incentive is the knowledge that new-build council houses will not be subject to the right to buy. Certainly, that is the feedback that we have had from a number of councils and other players in the field.

When we introduced “Firm Foundations”, we said that we wanted to end the right to buy new-build social housing. However, we also said that we would listen to what came forward in the consultation, and many different organisations and individuals have suggested that we go further in a number of different ways. I welcome some proposals that Jim Tolson and the Liberal Democrats have made. We are considering carefully all those suggestions. When I make my statement before the summer recess, I will outline exactly what we intend to do about the right to buy.

I certainly concur with the premise behind Jim Tolson’s questions. Local flexibility is an important issue; in a sense, that is what the pressured area designation was intended to deliver, and the previous Administration was right to go down that

road. We saw just last week that further areas have been given that designation. There is no doubt that, while the right to buy has been a success over the years in enabling people to become home owners who might not otherwise have had that opportunity, we are now in very different circumstances, and we must ensure that our public policy reflects that.

On regeneration, the Government is committed to developing a strong regeneration agenda. There is no sense whatever of any cutbacks or of backing off from that commitment. Members will be aware of our funding commitments to the urban regeneration companies, and I had the pleasure of attending the annual general meeting of Irvine Bay Regeneration Company just a few weeks ago. We are strongly committed to supporting such companies and housing has a big part to play in regeneration. Again, when I make my statement before the summer recess, more of our thinking around that will emerge.

The Convener: I will indulge myself and do a Kenny Gibson on the right to buy. I think that all committee members acknowledge that people aspire to own their own home. Because of the recent publicity about the right to buy, I have had representations from people who have lived in housing association properties for more than 20 years but have never had the right to buy. They feel bitter about that, and they do not envisage ever having that right. What can we say to people in rented accommodation who aspire to own their own home? Is there any thinking about how they could be supported in some way to move from rented accommodation and buy their own home? Grievances are building up because such people see others in the housing association sector being helped.

Nicola Sturgeon: I accept both the premise of the question and the aspirational element of the right to buy, which is what is behind the policy's success. Like many other people, I grew up in a home that was purchased under the right to buy, so I understand the aspirational element. I, too, have constituents who have raised the point that you make because they live in housing association properties that have not been subject to the right to buy. We must think about how we ensure that the aspirational element is not lost.

To answer the question directly, you will be aware that one of the changes that we made around the open market shared equity scheme was to target it more at people in social rented housing in order to give them more opportunity to move into home ownership. I do not suggest that that will help or be appropriate for everyone, but I hope that people take it as a sign that the Government and I are not blind to the aspirational motive that you talked about.

The Convener: You said that you are thinking. Is it serious thinking? I know that in the scheme of things it might not be—

10:15

Nicola Sturgeon: I say in all seriousness that although I understand your points and I am open minded about ideas and suggestions—the Government, too, will think about the different steps that we can take—we must not lose sight of the significant issue that all members are right to talk about regularly, which is the housing challenge that we face in all tenures, not least in the social rented sector. For that reason, we cannot simply continue with the right to buy unreformed. The right to buy is leading to the loss of houses from the social rented sector. The statistics show that the average number of houses lost to that sector every year is about double the number of new builds in the sector, so the issue is significant. In addition, the right acts as a disincentive to councils to become involved in new build. For all those reasons, we are right to consider seriously fairly radical reform.

Bob Doris (Glasgow) (SNP): I will ask about the £25 million to incentivise council house building. I am an MSP for Glasgow, where the situation is somewhat different from elsewhere, as wholesale stock transfer from the council has taken place. Some local authorities that have no core council housing stock might still wish to get their hands on the extra moneys that are available. Will you make initial comments on how a local authority such as Glasgow City Council, which has no stock, could take some of that pot of cash to incentivise house building?

Nicola Sturgeon: I said at the outset that we are discussing with COSLA the principles that will underpin the allocation of the money. No decisions have been taken, so it is clear that scope exists to discuss that point. However, it is important that I am frank and honest with the committee. To achieve the maximum benefit from the money that we are prepared to invest in new council house building, the money must be focused on councils that have retained their housing stock. I understand that other councils will want to seek ways to access money. As I say, our mind is not closed to such discussions, but apart from any other arguments, I think that the overheads and administrative costs of recreating the necessary housing infrastructure would be prohibitive for a council such as Glasgow City Council that has divested itself of all its housing stock, given the scale of the investment that we are talking about. However, the discussions continue.

Bob Doris: I imagine that a large local authority such as Glasgow City Council could still have a role. Along with the City of Edinburgh Council,

Glasgow City Council has the unique role of handing out the housing association grant on behalf of what was Communities Scotland. Have you thought about giving authorities such as Glasgow and Edinburgh a wider strategic role? In Glasgow, large pots of cash are out there, such as the moneys for 3,000 new houses that Glasgow Housing Association is supposed to build, of which 100 to 200 are in the pipeline. The GHA is given significant pots of public cash. Do you see a key strategic role for the local authority in administering the HAG, any new moneys to incentivise council house building and grants to other agencies in Glasgow?

Nicola Sturgeon: I am more than happy to factor those comments into our thinking. "Firm Foundations" talks about the need to have more regional strategic planning for housing need, which is important. Bob Doris raises what are for different reasons legitimate issues for Glasgow and Edinburgh. Glasgow City Council's issue is that it has divested itself of its housing stock; that is not the case for the City of Edinburgh Council, but it might have a lack of prudential borrowing capacity. We need to discuss such issues with local authorities individually and with COSLA.

I outlined the principles that I think will be crucial in ensuring that we achieve the maximum benefit and the maximum number of new houses from the investment, but I prefaced that by saying that we are in a process of discussion. We will listen carefully to what is said.

Bob Doris: I really appreciate that answer. You will understand that some elected members in Glasgow are frustrated when we see that although significant public funds rest with an organisation that has a strategic interest in delivering 3,000 new houses, that organisation does not seem to be delivering. If one organisation that has significant amounts of taxpayers' money cannot deliver, will you look at transferring the moneys to another organisation, local authority or otherwise?

Nicola Sturgeon: I am more than happy to consider the points that Bob Doris makes. I was sure that we might venture into the territory of the GHA at some point in our discussions—that is entirely in the hands of the committee. Notwithstanding the points that Bob Doris makes, I have made it perfectly clear to Glasgow Housing Association that if the association and council are to meet the objectives that they have been set, much more strategic integration needs to take place between the GHA and Glasgow City Council, not least in the area of regeneration.

Johann Lamont (Glasgow Pollok) (Lab): I welcome the cabinet secretary's confirmation that she will report further on the "Firm Foundations" document. In the debate on free personal care last week, she said that the issue was about

"ensuring ... the settled will of this Parliament on devolved matters is not undermined".—[*Official Report*, 15 May 2008; c 8703.]

When she makes her statement, I hope that it will acknowledge that the settled will of the Parliament is that the "Firm Foundations" document is seriously flawed, particularly in what it says about a single developer. We would welcome knowing that the Parliament's view on the housing strategy will be acknowledged.

My other questions are on the £25 million figure. What proportion of the affordable housing budget is £25 million?

Nicola Sturgeon: I am sure that I can do the arithmetic if the member gives me long enough. It is a small proportion of the £1.5 billion that we will spend on affordable housing over the next three years. I say clearly to Johann Lamont and the committee that this is a start—a kick start for a new generation of council house building, something that disappeared under the previous Administration.

Johann Lamont: However, you accepted that there is no distinction between council housing and housing association housing in terms of the quality of the housing for the people who live in it. The £25 million may be a tiny proportion, but will it be top-sliced off the allocation to housing associations?

Nicola Sturgeon: It is part of the overall housing budget that we announced in the Scottish budget. It will make a positive net difference to the number of affordable houses that we can build. Notwithstanding the party political differences between us, I am sure that Johann Lamont and I can agree that that is an important objective. If she wants me to answer her other question, I am happy to do so.

Johann Lamont: The question is on whether what the Government is doing is entirely new. At the SNP conference the cabinet secretary said:

"I can report to you today that since May last year, councils have started work on 250 new council houses",

but surely those houses are being built because of the change in the prudential borrowing rules in 2004. The number has nothing to do with anything that your Administration has done since last May.

Nicola Sturgeon: I am not that interested in getting into a blame game or a let's-claim-the-entire-credit discussion. I would rather have a constructive discussion with the committee.

Johann Lamont: This is a constructive discussion.

Nicola Sturgeon: I will try to answer the questions if I am given the time to do so, without interruption.

I accept Johann Lamont's point on prudential borrowing; it is a reasonable one. If I do that, in the interests of consensual and constructive discussion, perhaps she will acknowledge what West Lothian Council said a few weeks ago. In its announcement of plans for new-build council housing, it said that it would not have taken the decision without the indications that the Government has given, for example on the right to buy. The council said that that was an important consideration.

I am more than happy to accept any contribution that the previous Administration made on this, but the policy direction that this Government has set is having a positive impact on the decisions that councils are beginning to make on council housing.

Johann Lamont's previous question was on the Parliament vote last week. If she is prepared to wait for it, I will answer the question. I always accept the votes of the Parliament and seek to honour the will of the Parliament. It is my responsibility to do so. However, that does not mean that I change my opinion. It is absolutely absurd to describe "Firm Foundations" as "seriously flawed". Anyone who has read the consultation responses to the document and is not completely and utterly biased against the Government would recognise that that is an absurd description.

The vast majority of proposals in "Firm Foundations" received not just majority support but overwhelming support from the people who responded to the consultation. I accept that opinion on the lead developer issue, for example, which Johann Lamont mentioned, is more divided and that the Government has a job to do to explain the rationale and to make the case for what we want to do. I will take that a step further when I make my statement before the summer recess. However, if we are to have a reasoned and reasonable debate, all sides are under an obligation to be rational. To describe "Firm Foundations" as seriously flawed stretches the boundaries of rationality.

Johann Lamont: With respect, you can say that such a view is absurd, but the settled will of the Parliament is that the document is seriously flawed and you have an obligation to respond to that.

There is genuine concern that £25 million is a marginal amount of money. A lot of work has been done to support councils through prudential borrowing, as I think you accept. I acknowledge what you said about the right to buy. However, in "Firm Foundations" you say:

"subsidies ... will be awarded on a competitive basis to those authorities that can demonstrate the most effective and efficient use of their borrowing capacity",

which seems to imply that awards of subsidies will not necessarily match need. How can you ensure that the money, even if it is a small amount, meets need? Some housing associations and local authorities expressed concern that the marginal amount of money that is to be allocated might go to authorities that are in a stronger and healthier position. How will you prevent that from happening?

Nicola Sturgeon: I am more than happy to answer that question. The full quotation from "Firm Foundations" is:

"subsidies ... will be awarded on a competitive basis to those authorities that can demonstrate the most effective and efficient use of their borrowing capacity to meet need for social housing in their areas."

The completion of the sentence probably goes some way towards answering your question—

Johann Lamont: The point is that there will be competition between authorities. There is an issue there.

Nicola Sturgeon: I accept your point and I will respond to it. "Firm Foundations" set out our policy direction, and now that we have made clear the funding that we intend to commit during the next spending period our thinking has developed beyond what was in the initial statement to a more detailed level. That is why I shared with you some of the principles that we are beginning to develop with COSLA. We talk about councils that have prudential borrowing capacity or other resources that they can bring to the table, but we also talk about the need to ensure that we focus resources on areas of housing need, in particular areas that face the most acute pressure in meeting the 2012 target. We will balance those principles, to ensure that money is allocated in the optimal manner, and we will do that in partnership with COSLA.

Johann Lamont introduced her question with pejorative comments about concern that there is not enough money, but I have had an overwhelmingly positive response to my announcement and so far my discussions with local authorities have been extremely positive. I am more than happy to discuss the detail and answer questions as our thinking develops, but let us accept that we are contributing to a goal of increased house building and increased building of social rented housing that I am sure that all members welcome, even if they have questions about the detail.

David McLetchie (Edinburgh Pentlands) (Con): May we put on record the facts about how many new social rented houses have been built? There has been excessive focus on council house building in the debate, rather than on the totality of new social rented housing that has been completed in recent years. Helpfully, we have

been supplied with statistics. For the record, will you confirm that in the eight years to 2006-07, for which figures are available, 31,341 new social rented houses were built?

Nicola Sturgeon: Will you repeat the time period that you mentioned?

David McLetchie: I am talking about the eight years from 1999-2000 to 2006-07.

Nicola Sturgeon: Your figure sounds right. I do not have the figure in front of me in that form, but I will be happy to confirm it later, if that is helpful.

David McLetchie: We probably have the same sources. Perhaps you could take my assurance that—

Nicola Sturgeon: I am always happy to take David McLetchie's assurances.

David McLetchie: Thank you. In the interests of an accurate record, I can assure you that the figure splits into 15,986 houses completed in the first four-year term of the Parliament and 15,355 completed in the second term of the Parliament—broadly speaking, as the figures run from 1 April to 31 March. Do you anticipate that the total number built by councils and housing associations will be higher or lower than the 15,986 built in the first four-year term?

10:30

Nicola Sturgeon: It is certainly my hope and intention that we exceed that figure. One confusion is that some figures are for completions—such as the figures that you have quoted—while others are for approvals. Clearly, there is a difference.

David McLetchie: I think that we are talking about completions.

Nicola Sturgeon: The number of approvals in the previous comprehensive spending review period was 21,500, and we have said that we want at least to meet that figure and, I hope, to exceed it.

Central to our chances of success—I am being frank with the committee—will be how successful we are in driving efficiencies in the HAG system. Many members have expressed views about that, but there is no doubt, even taking into account understandable and desirable differences in rent levels, that our average level of subsidy is higher than that south of the border. If we are to exceed previous numbers and meet the challenges that we all acknowledge that we face, we must—to put it crudely—get more bangs for our bucks. That is why we are prepared to take the tough but correct decisions to ensure that our considerable investment in affordable housing delivers more houses.

David McLetchie: If you accept that 31,341 new social rented houses were completed in that eight-year period, will you accept from me an assurance that the number of sitting tenant sales by public authorities in the same eight-year period was 105,466?

Nicola Sturgeon: I accept your assurance. If I find later that those figures are not ones that I would accept, I will let the committee know.

David McLetchie: I will apologise if they are wrong, but they are the figures provided by the Scottish Parliament information centre.

My point is a relatively simple one. The argument that the existence of the right to buy precludes or inhibits the building of new social rented housing is not borne out by the statistics. We have been building roughly three new homes for every 10 that have been sold—or one in three, as I described it in the recent debate.

Nicola Sturgeon: David McLetchie has given those figures, but I know from my discussions with builders of social rented housing and councils that there is a perception that the right to buy is a disincentive to building new council housing. I also believe that the mood in Scotland now is that, although we accept the benefits of the right to buy, it is time to look afresh at the policy. I accept that we will have differences of opinion on that, and I respect the view taken by David McLetchie and his colleagues. However, I take a different view, and the time is right to reform the right to buy policy. That will have a beneficial effect on the level of new social rented housing in the coming years.

David McLetchie: We are advised that, in 2006-07, the number of sales of public authority houses to sitting tenants was 8,414. Can you give us a ballpark figure for the average price received by a council or housing association from the sale of such a house?

Nicola Sturgeon: I do not have to hand the figure for the average cost, but I will get it to you. We saw about 9,000 sales in 2006. That figure has declined from about 12,000 a couple of years before, and we are now looking at a lower figure. The current estimate for sales is about 8,000 a year for the foreseeable future.

David McLetchie: For the purposes of the debate—although it might not be entirely statistically accurate—would it be reasonable to say that 8,000 houses would be sold for an average sale price of £25,000, with the discount? Would that be an unreasonable assumption, or is the figure likely to be higher or lower?

Nicola Sturgeon: That is not an unreasonable assumption.

David McLetchie: I wonder whether your officials can tell us whether the figure is higher or whether that figure is reasonable.

Nicola Sturgeon: I suspect that it is a reasonable assumption for the purposes of the discussion that we are having. I understand the point that David McLetchie is making; however, I point to the fact that the proposals on the right to buy that we set out in "Firm Foundations" received overwhelming support from housing associations and councils—the people who we would expect to be most alive to the kind of argument that David McLetchie is putting forward. There is clear support for the direction of travel. I accept that we will have political and philosophical differences of opinion on the matter, but I would argue strongly that there is a sufficient level of support to justify our taking our proposals forward.

David McLetchie: It is not a matter of philosophy; it is about how much money councils have to invest in new social rented housing. For the purposes of our discussion, let us assume that 8,000 houses are sold for £25,000 per house, although I suspect that that figure for receipts is slightly on the low side. According to my arithmetic, 8,000 times £25,000 is £200 million. That £200 million could be spent by the selling councils on building new social rented housing or on improving their existing stock—they would have the freedom to do that with the money, or they could repay debt, but they would be free to choose how to deploy the money. Is that correct?

Nicola Sturgeon: David McLetchie should not underestimate debt as a factor in how councils have spent such money.

David McLetchie: No, I have not underestimated it. I have been telling you for months to get that debt written off. That is in your hands.

Nicola Sturgeon: I am more than happy to have that discussion.

David McLetchie: Indeed, but let us stick to the issue of resources. We have agreed that £200 million is—

Nicola Sturgeon: Clearly, councils have not been building new stock with those receipts, and debt is obviously a factor. However, if, as David McLetchie suggests, our proposals were a serious concern for councils, in that they believed that they would limit their ability to build stock or invest in their current stock, it would be logical to assume that councils and housing associations would be violently against the proposals on the right to buy. I am saying that the contrary is the case. Among those sectors, there is very strong support for the Government's proposals on the right to buy—that is a fact.

David McLetchie: But, for the purposes of our discussion, we agree that the councils and housing associations are getting £200 million that they can deploy on new or improved social rented housing. That figure, which they can generate from right-to-buy sales under the existing scheme, is eight times the amount—£25 million—that you are now making available.

Nicola Sturgeon: Given his attention to the detail of the figures that he is presenting, David McLetchie will not have overlooked the need to factor into the figures the loss of rental income to councils and housing associations when they sell council houses. If that were factored into the equation, the figure of £200 million would look considerably different.

I am more than happy to have a discussion around the figures, but it is important that we do not selectively pick the figures that help our case and conveniently forget the ones that do not. If councils thought that our proposals were a serious concern, as David McLetchie suggests, I would have expected them to have argued passionately against them, but the contrary is the case.

David McLetchie: I would like to ask more questions, but I suspect that other members also have questions.

The Convener: You may have the chance to do that, but a couple of members have yet to come in.

How many councils are serious contenders for the money?

Nicola Sturgeon: At the moment, about seven councils are pursuing definite plans in this direction, including Midlothian Council, West Lothian Council, Aberdeen City Council, North Lanarkshire Council and Falkirk Council. Another four are actively considering new build houses. Three councils have shown an interest but acknowledge the fact that they have issues to overcome. Another five have said that they are watching carefully the developments around how we allocate the money, and the remainder have not yet got plans in train.

The Convener: People have divided the £25 million among 32 councils, but the number of councils involved is not even 50 per cent of that.

Nicola Sturgeon: I think that I made it clear in our discussion of the principles that there would not be such a crude allocation.

The Convener: So there are around seven serious contenders for the money.

Nicola Sturgeon: As I said earlier, we want to ensure that councils that would like to move in the direction that we have proposed but whose plans are not as well advanced are not disadvantaged, which is why we are considering allocating the

money in two tranches. We envisage decisions being made about first tranche allocations before the end of this financial year; the second tranche will be allocated in the next financial year.

The Convener: But a number of councils will be cancelled out automatically because of the criteria—

Nicola Sturgeon: A number of councils will decide, for one or more of the reasons that we have talked about, that what we have proposed is not appropriate for them. Perhaps other councils will meet the criteria but will decide that they do not want to go down that road—local authorities are, of course, autonomous organisations.

The Convener: Yes, but you did not pull the figure out of the air.

Nicola Sturgeon: We did not.

The Convener: So what estimates of the councils that would be likely to benefit from the money did your officials have?

Nicola Sturgeon: I have just given you the rough categories.

The Convener: Seven councils would be likely to benefit.

Nicola Sturgeon: No. Do you want me to run through the rough categories again? Seven councils have well-developed plans. I imagine that they will want to discuss the first tranche of money. Another seven councils, which I expect to be in a position to have serious discussions, are actively considering developing proposals. I do not want the committee to think that the maximum number of councils that will benefit is seven.

The Convener: Okay. There are around 14 serious contenders for the first and second tranches of money.

Nicola Sturgeon: Yes. You will remember from “Firm Foundations” that we talked about those councils that could take advantage of an incentive scheme like this delivering between 500 and 600 houses a year. As I said earlier, I see that as a starting point. We are starting from six council houses being delivered in the past year.

The Convener: That is against the tremendous record of the housing associations.

Nicola Sturgeon: With respect, convener, I accept that housing associations are the principal players, but you invited me to talk specifically about the contribution that councils can make. That is why I have focused on council housing.

The Convener: Yes, but you invited us to speak about “Firm Foundations”.

Nicola Sturgeon: Sure, but it is important to be clear that I am not suggesting for a minute that the

vast majority of social rented houses are not, and will not continue to be, built by housing associations.

Alasdair Allan (Western Isles) (SNP): A small but significant part of the Government’s housing strategy centres on the efficiency savings that will, in the Government’s view, arise from the abolition of Communities Scotland. Will you say a little more about the potential that the Government thinks exists for streamlining structures? How much work has been done to detail that potential?

Nicola Sturgeon: We have already improved the delivery infrastructure. The abolition of Communities Scotland involved the transfer of around 240 posts into core Government; obviously, the regulation feature remains separate. Bringing Community Scotland’s functions into core Government allows us to make efficiency savings that will be available to be invested in other ways. However, there is a bigger picture. The arrangements that we now have for delivering our housing and regeneration functions are much more aligned with the Government’s overall purpose and objectives. I certainly think that the current arrangements are better than the arrangements that they replaced.

Alasdair Allan: Given the range of activities and offices that Communities Scotland had, do the savings include potential capital savings?

Nicola Sturgeon: A range of efficiency savings will be made as a result of the abolition of Communities Scotland, but I want to make the point clearly that it is not just about financial efficiency savings, but the better delivery of functions. One of the advantages is that the players and our partners in the area now have a single Government player to deal with, which brings advantages to them and to the Government in trying to meet its objectives. As you know, the Government has set ambitious efficiency savings targets for the public sector. It is clear that the abolition of Communities Scotland contributes to meeting those targets. Abolishing Communities Scotland was not driven purely by a requirement for efficiency savings; it was about how we deliver services and functions of Government in a more streamlined and effective manner.

10:45

Kenneth Gibson (Cunninghame North) (SNP): We have heard a lot about housing associations and the excellent work that they do, but I have a considerable number of concerns about the number of new builds among our registered social landlords. For example, the figures that David McLetchie alluded to show a 31 per cent decrease on 2005-06 in the number of houses built by housing associations in 2006-07. That is the

lowest number of houses built since this Parliament was established and was while Johann Lamont was Deputy Minister for Communities. Have the housing issues that have been discussed included how the more-bang-for-your-buck idea will succeed in reversing that?

Nicola Sturgeon: I share Kenneth Gibson's concerns. The Parliament takes the view that we face a significant housing challenge and, given the changing demographics, nature and shape of our society, that challenge will grow and we must be able to meet it. As the committee knows, we have set an overall house-building target of 35,000 houses a year by the middle of the next decade, which is up from 25,000 just now. Within that, we also have to increase the rate of building housing for the social rented sector.

I have been very clear—and created controversy and attracted criticism—that we will not achieve that target unless we are prepared to drive efficiencies in the subsidy that we give to housing associations to build houses. I have had this discussion with committee members before. The relative levels of subsidy between Scotland and the rest of the United Kingdom are substantially different. In 2006-07, the grant per unit in Scotland was £77,000 but £62,000 in England. Those figures are higher in the more recent year. That difference has to be tackled.

I accept that we have to safeguard elements of how we go about that. It is not the Government's intention to jeopardise any housing association's capacity to build houses, but this year we have looked to drive efficiencies by changing some of the assumptions and allowances that we make in the HAG subsidy regime. Many of those changes are simply bringing our assumptions and allowances into line with the assumptions that housing associations already make. For example, in the past, grant levels have been based on rents increasing by no more than the retail prices index. Housing associations are planning for rents to go up by RPI plus 1 or 2 per cent. We are therefore bringing our assumption about rents into line with that plan and assuming an increase of RPI plus 1 per cent.

Similarly, it was previously assumed that approximately 2 per cent of properties were void and that housing associations got no rental income from them. The real figure is 1 per cent. We are bringing our assumptions into line with reality and, in doing so, we will be able to reduce the level of subsidy and get more houses for our investment. Given the challenges that we face, we should all be behind that.

Kenneth Gibson: One reality that impacts on your ability to reduce the level of subsidy is the level of inflation in the construction industry, which is considerably higher than the RPI. Because of a

shortage of skilled labour and the draw of the Olympics in London, the rate of inflation in the construction industry is between 6 and 8 per cent. Does cutting the subsidy per unit when construction costs are accelerating above inflation not make it difficult to achieve the target?

You mentioned the grant per unit figure of £62,000 in England and £77,000 in Scotland. The Scottish figure is skewed by our rurality. For example, I was at a meeting of the Rural Affairs and Environment Committee that was taking evidence about housing in Arran. It is 32 per cent more expensive to build a house on Arran, where there are high levels of housing relative to the population, than it is on the mainland. Will the HAG be flexible and not capped? If it is, some parts of Scotland will find it extremely difficult to build any houses.

Nicola Sturgeon: Absolutely. I confirm that there is no cap and I assure you that the position of smaller housing associations that serve rural communities will be borne in mind. The member makes a number of reasonable and legitimate points about rurality and the differences between Scotland and England. However, even taking into account the fact that rent levels in Scotland are lower than those in England, our rate of subsidy is significantly higher. If we did not have a housing crisis and did not need to build a significant number of additional houses, we might be prepared to shrug our shoulders and to say that we were prepared to live with that. However, in the real world, where resources are finite and where we need to build more houses and face a significant challenge, we do not have that luxury. We must face up to reality and make the efficiency savings that have been outlined. Those savings are reasonable, taking into account all the points that the member makes. If we remain resolute in our determination to make them, the result will be more houses for social rent. At the end of the day, that is in the country's interests.

Kenneth Gibson: Many of our housing associations are much smaller than those in England, which have economies of scale that we cannot match. Because many English housing associations are cash rich, some of our RSLs are concerned about possible buyouts by competing organisations from south of the border. Are you looking for RSLs to borrow collectively or across Scotland, so that they can compete with such organisations and cut their borrowing costs, and to work co-operatively on the schemes that they propose? Are you looking for them to build larger estates than they built before—estates of a 100 or 200 rather than 20 or 30 houses? How do you intend to achieve the efficiencies that you have outlined?

Nicola Sturgeon: Our housing association sector has cash surpluses of around £300 million, so there are cash riches in our sector as well as in the sector south of the border. As the member knows, we have consulted and decided on changes to the HAG subsidy regime for this year. Those changes will enable us to make efficiencies, to reduce the rate of subsidy and, I hope, to build more houses. “Firm Foundations” makes clear our intention to take forward, in consultation with the Scottish Federation of Housing Associations, proposals on single developer competition, to ensure that we are able—without losing the characteristics of the Scottish sector or compromising the differences that the member has described, many of which we want to retain—to arrange to build houses in ways that allow us to get more for the money that we spend. That is sensible at the best of times. In the situation that we face at the moment, it is imperative.

Kenneth Gibson: David McLetchie made the point that, if we assume 8,000 sales at £25,000 per house, £200 million will be generated. Is it not the case that often, if not almost always, the debt that is associated with building houses is higher than the capital receipts from them and that a higher proportion of rent from remaining stock must, therefore, go towards servicing the increased debt burden? That was certainly the case in Glasgow before stock transfer.

Nicola Sturgeon: The proposals that we have made this year and that we will take forward will not lead to that conclusion. They will allow us to preserve the special characteristics of our system but allow us to build more houses for the money that we invest in it. As the minister responsible for housing, I am not prepared to do nothing, given the scale of the housing need that exists. I want to work with housing associations and we are working constructively with the SFHA. I am not suggesting for a minute that the federation does not have concerns and anxieties about what we are proposing, but we will continue to have a dialogue with it. Just last week we agreed to set up a stakeholder group to look at how we can reduce the administrative burden of the grant system. That proposal was warmly welcomed by the SFHA, which can derive great benefit from it.

We will work in partnership, but we must be open eyed on the issue. Every member of the committee has challenged me on the need to build more houses, including more socially rented houses. That is not a criticism—they were absolutely right to do so, and no doubt they will do so again. I accept the challenge that has been laid down, but we must be brutally honest. We will succeed only if we make some of the changes that have been proposed. We must ensure that we get good value for money, that taxpayers are well served and that more houses are the end result.

Patricia Ferguson (Glasgow Maryhill) (Lab): You mentioned discussions that you had last week with the Scottish Federation of Housing Associations and said that you would be taking forward other discussions. Are those the discussions that the SFHA had requested on the formation of a short-life working group to consider the HAG proposals?

Nicola Sturgeon: Yes.

Patricia Ferguson: Good. Thank you.

One concern about “Firm Foundations” that many housing associations have raised with me and that I have then raised with you—and, last week, with the Minister for Communities and Sport, who I have to say seemed very reluctant to respond to my questions—relates to the lead developer model. How might that model work, particularly with regard to housing associations? Is there any scope for associations to assist local authorities in meeting their new-build needs?

Nicola Sturgeon: We set out the direction of our thinking in “Firm Foundations”. Clearly, in response to the points made in the consultation, we are developing that thinking. I am not reluctant to respond to you but, as you will appreciate, we are still firming up proposals that will be set out in a statement that I will make to Parliament before the summer recess.

I recognise some of the concerns that housing associations have expressed and want to ensure that we respond properly to them. It is certainly not the Government’s intention to drive down quality or to drive smaller housing associations out of providing social rented housing. However, I believe that there is a more optimal way of arranging social housing provision that, as I said earlier, preserves some of the good aspects of what we already do but allows us to organise things so that we get more bang for our bucks. We are right to develop thinking along those lines and to engage the SFHA and housing associations in those discussions.

Patricia Ferguson: Kenny Gibson asked whether you were looking to RSLs to build estates of 20 houses or whether you were considering even bigger estates. I would be concerned if that proved to be the direction of travel, not least because of the availability of land, particularly in urban areas. Again, the issue flags up various geographical differences; in rural areas, it might be feasible to build estates of 100 houses whereas, in more urban settings, the optimum number is probably 20. Are you seeking to increase the scale of building undertaken by housing associations?

Nicola Sturgeon: The relevant paragraph in “Firm Foundations” says:

"A key objective of this approach is to allow all types of RSLs to continue acquiring stock where that is consistent with strategic need for new stock. However, rather than do so at their own hand, the lead developer"

may

"develop stock on their behalf as part of a larger strategic programme."

The issue that you raised is certainly forming part of our thinking.

In order to be constructive, I say to you that I do not think that one size fits all. Scotland's situation might well be very different from that south of the border, in that the needs of our urban communities are different from those of some of our rural or island communities. That will have to be factored into our thinking.

As I said earlier, if, as I assume, we all want more social rented housing to be built, doing nothing is simply not an option. I am prepared to listen to the views that are being expressed. Indeed, I am a fan and advocate of the housing association sector; I have some fantastic housing associations in my constituency and understand and appreciate their work. It is my desire to work with them and listen to others' views, and I will continue to do so. However, a fact of life is that we must make certain reforms if we are to meet our objective of having more houses, and those who call on the Government to provide more social rented housing will be considered to be in the right until they start trying to block the reforms that will allow that to happen. If they do so, they cannot be taken particularly credibly.

Patricia Ferguson: Would it not be better for you to encourage housing associations to co-operate with one another when considering building in particular areas, rather than trying to force them to use a model that they seem uncomfortable with?

I will close my questioning now, because I know that the convener is keen to move on. Can you tell us when the budget allocations for housing will be announced?

Nicola Sturgeon: We expect to make announcements on those allocations next week.

Patricia Ferguson: Good. Thank you.

11:00

The Convener: I am prepared to invite some more questions. Alasdair Allan mentioned particular issues to do with Communities Scotland.

David McLetchie: I would like to ask about the reorganisation of Communities Scotland. Obviously, there has been significant restructuring in the former executive agency, and there has been the creation of the regulator and the

assignment of staff back in-house, so to speak, covering the breadth of Communities Scotland's responsibilities. Has that reorganisation had a negative impact on normal day-to-day decision making? Has decision making slowed down on matters that would have fallen within the former agency's remit?

Nicola Sturgeon: No. I strongly believe that that is not the case. The incorporation of Communities Scotland into core Government went exceptionally well. Perhaps—dare I say it?—it went better than I dared hope for at the start. That is to the enormous credit of the officials who made it happen and to the credit of Communities Scotland staff who were extremely co-operative and constructive in their approach.

Mr McLetchie might have a particular issue in mind, but I have heard no evidence of a negative impact on decision-making processes or on the normal day-to-day business of the Government directorate that I lead.

David McLetchie: As you predict, I have a particular issue in mind.

Nicola Sturgeon: I thought that you might.

David McLetchie: It concerns surplus land that is presently on the account of the Scottish Prison Service at HM Prison Edinburgh in my constituency. Back in September 2006, as part of the public sector trawl process, Communities Scotland indicated an interest in that surplus land. I presume that it had in mind the building of new affordable housing, or the allocation of the land to a housing association—both would be perfectly reasonable propositions.

It is now May 2008, and the matter remains unresolved. The decision-making process does not strike me as very expeditious. It will not help you to attain the targets to which you aspire if it takes two years to decide whether a piece of land that is already owned by the public sector is to be made available for affordable housing.

Nicola Sturgeon: I accept that that period of time is not what people want. I have been in my job for only one year, so I presume that the first year of the decision-making process was down to another Government.

I am more than happy to look into the particular circumstances and to write to you, if that would be helpful.

David McLetchie: It would indeed be helpful. The relevant minister has stalled for months on having a meeting to discuss the issue, so I would very much welcome the support of the cabinet secretary.

Nicola Sturgeon: I am more than happy to take the issue forward for you.

David McLetchie: Thank you very much indeed.

Johann Lamont: A number of questions arise to do with what the efficiency savings actually are, but we can perhaps come back to them.

I want to ask first about the loss of expertise from Communities Scotland. I am sure that the cabinet secretary would share my concern if such a loss were the consequence of restructuring. I am concerned about Communities Scotland's role at the local level—particularly in relation to what were social inclusion partnerships and are now community planning partnerships.

How can we still make use of the expertise that was brought to the community planning partnerships table—expertise in housing and physical regeneration—if we no longer have the equivalent of Communities Scotland representation?

Nicola Sturgeon: I do not accept the premise that we have lost expertise from Communities Scotland. As the committee knows, ministers gave a clear commitment that there would be no compulsory redundancies because of the reorganisation. Around 240 posts have transferred from Communities Scotland into the core Scottish Government. The end of local regeneration activities affected around 40 staff, and they have been redeployed. Corporate services were absorbed into the Scottish Government too, which affected around 90 members of staff. The work of the Communities Scotland regulation and inspection division has been transferred to the new Scottish Housing Regulator, which has around 70 posts.

Our decision to withdraw from local community regeneration was a deliberate decision that had the support of local government. It was taken for the simple reason that we want local players to play the lead role in local regeneration without an extra layer of central Government intervention. I believe that local authorities and community planning partnerships are better placed than central Government officials to take that work forward. In my experience, community planning partnerships in my local area are getting on with that work exceptionally well.

Johann Lamont: I might have reservations about that in my area, but that was not the point that I was making. I accept that you have indicated what you believe the efficiencies to be, and I am not saying that people with expertise are no longer within the structure. However, everybody in the old SIP process recognised as a strength the fact that somebody from Communities Scotland sat on local community planning partnership boards, looking at projects and bringing their expertise in regeneration and the connection between housing,

physical regeneration and community regeneration. It is not just local community planning partnership boards that are concerned about that loss of expertise and way of looking at things and making connections with Government; housing organisations are concerned that Communities Scotland is no longer at the table.

Nicola Sturgeon: I have said clearly what our thinking was behind that decision. I believe that local authorities and community planning partnerships are best placed to take decisions locally.

Johann Lamont: But that is not the point. With respect, I am asking you—

Nicola Sturgeon: You are asking whether I think that the expertise and ability of those organisations to deliver what they are delivering have been somehow reduced because they no longer have a Communities Scotland official sitting at the table. I am saying to you that one of the reasons for our decision—which local authorities agreed with—to withdraw from local regeneration was that we think that it is better for those decisions to be driven locally. I accept that this is perhaps an area in which there are legitimate differences of opinion—my opinion is not wrong just because it is different from your opinion. I am explaining as openly and frankly as I can the reasoning behind the decision.

Johann Lamont: With respect, I must say that I do not understand the point that you are making. I am not suggesting that Government officials imposed their will on local partnerships; I am saying that they provided a critical link into the housing associations and housing organisations that brought a particular physical regeneration perspective. You still have area offices, and I hope that you will reflect on the concerns that exist.

Nicola Sturgeon: Of course. Part of the benefit of a session such as this is that we can reflect on the concerns that have been expressed. Although we can try to score points off one another, I think that we all believe in the same things concerning the challenges in housing and regeneration. We are all trying to go in the same direction, even if we choose different ways of doing that. Of course I will listen to those concerns, but it would help—particularly in committee sessions—if we avoided unnecessary confrontation.

Johann Lamont: I am not sure that it is helpful to suggest that, when someone brings a concern to the table, they are attempting to score points.

Nicola Sturgeon: I was not suggesting that. I was just suggesting—

Johann Lamont: It is a genuine issue. Even if you listen to no other concerns or regard them as absurd, you may want to reflect on that one.

I ask for clarification on the budget for Communities Scotland for the next three years, which has flatlined. Will the budget remain the same, although Communities Scotland has gone? I am genuinely curious, as I am not sure how that works.

Nicola Sturgeon: There is no separate Communities Scotland budget line now, as Communities Scotland does not exist, but the money remains in the overall budget.

Johann Lamont: There was a budget line for the next three years, post abolition, which was to stay the same for three years.

Nicola Sturgeon: I am sorry, but I do not have the budget in front of me. I think that that was for administration—it was not Communities Scotland's total budget.

Johann Lamont: No, but it was a figure that was going to remain the same for three years.

Nicola Sturgeon: We had to keep that line in the budget because the transfer of Communities Scotland into core Government had not been completed at that point. Clearly, the Communities Scotland budget is—as is Communities Scotland itself—incorporated into the core Government budget. It is subject to the same 2 per cent efficiency savings requirement that is required of the rest of Government.

Johann Lamont: I will perhaps write to you about that.

Nicola Sturgeon: I am more than happy to respond on issues around that.

The Convener: Just for clarity, can you confirm that there were no redundancies or early retirements—no one left the organisation—and that all the staff were redeployed?

Nicola Sturgeon: From the figures that I have just read out, there were no compulsory redundancies—

The Convener: How many left the organisation under redundancy arrangements?

Nicola Sturgeon: I am more than happy to provide that figure. Around 40 staff required redeployment, and most of them were redeployed within the Government. I am not able to tell the committee categorically today—and I would not want to mislead you inadvertently—that no individual opted to leave Government employment and seek employment elsewhere, but I will provide that information to the committee.

The Convener: There was no significant number of leavers through early retirement or redundancy.

Nicola Sturgeon: Absolutely not. We are talking

about very small numbers. For the sake of putting the information on the record accurately, I will provide it to the committee in writing.

The Convener: Okay, thank you. There seem to be no other questions, cabinet secretary.

Johann Lamont: Sorry, I have one last question. We have an interim arrangement for the Scottish Housing Regulator. At what point will you legislate? I understand from an answer that I received that legislative changes to underpin the statutory role will be required at some point.

Nicola Sturgeon: The regulator operates under a framework and a ministerial code of practice to secure its independence from ministers. If we want in the long term to create the regulator as an entirely separate legal entity, Johann Lamont is right that we will require to do that through legislation.

The Scottish Housing Regulator was established on an interim basis until we decide how to take it forward in the long term. There are bigger-picture issues to consider around Crerar, for example, but I will make clear our intentions in that regard in the statement that I will make before the summer.

The Convener: I thank the cabinet secretary and her officials for their attendance this morning. We look forward to having further discussions about her various initiatives.

Nicola Sturgeon: Me too.

11:12

Meeting continued in private until 12:44.

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