

LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 4 March 2009

Session 3

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LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

6th Meeting 2009, Session 3

CONVENER

*Duncan McNeil (Greenock and Inverclyde) (Lab)

DEPUTY CONVENER

*Alasdair Allan (Western Isles) (SNP)

COMMITTEE MEMBERS

*Bob Doris (Glasgow) (SNP)

*Patricia Ferguson (Glasgow Maryhill) (Lab)

*David McLetchie (Edinburgh Pentlands) (Con)

*Mary Mulligan (Linlithgow) (Lab)

*Jim Tolson (Dunfermline West) (LD)

*John Wilson (Central Scotland) (SNP)

COMMITTEE SUBSTITUTES

Brian Adam (Aberdeen North) (SNP)

Paul Martin (Glasgow Springburn) (Lab)

Alison McInnes (North East Scotland) (LD)

Margaret Mitchell (Central Scotland) (Con)

*attended

THE FOLLOWING GAVE EVIDENCE:

Alex Neil (Minister for Housing and Communities)

Shona Stephen (Scottish Government Housing and Regeneration Directorate)

CLERK TO THE COMMITTEE

Susan Duffy

SENIOR ASSISTANT CLERK

David McLaren

ASSISTANT CLERK

Ian Cowan

LOCATION

Committee Room 5

Scottish Parliament

Local Government and Communities Committee

Wednesday 4 March 2009

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

Housing

The Convener (Duncan McNeil): Good morning and welcome to the sixth meeting in 2009 of the Local Government and Communities Committee. As usual, I ask committee members and members of the public to turn off all mobile phones and BlackBerrys.

The first agenda item is an evidence-taking session on housing supply issues with the Minister for Housing and Communities and Government officials. I welcome the minister to his first committee meeting in his new role. We wish you all the best in your new responsibilities and look forward to working constructively with you in future.

The minister is accompanied by Shona Stephen, deputy director of housing access and support; Bill Barron, principal project manager, housing investment reform project; and Kirsty Henderson, programme manager in the housing investment division of the Scottish Government. Minister, I give you the opportunity to make some introductory remarks.

The Minister for Housing and Communities (Alex Neil): Thank you, convener. As this is my first meeting as minister and as I am only three weeks into the job, I thought that it might be useful to give the committee my initial general thoughts on housing supply and, in particular, on affordable housing. First, though, I reiterate your sentiments about ministers and committees working together. It is important that we collaborate on these matters; after all, we are all trying to achieve the same objective. Of course, your job is to scrutinise my work and ensure that I am doing a reasonable job.

My remit is quite wide and covers housing, regeneration, fuel poverty, violence against women, social inclusion, financial inclusion, disabilities and a range of other issues. Although every one of those issues is a very important policy area, I have decided in the immediate period to focus—not exclusively, I should add—on two key priorities: affordable housing and fuel poverty. Of course, affordable housing can be tackled partly by addressing wider issues in the

housing market; however, the aspect over which the Scottish Government has most direct influence—and which is therefore our priority—is the supply of affordable housing.

As recommended by the housing supply task force, four broad issues need to be tackled: finance; infrastructure; land; and planning. We are moving in all those directions to tackle some of the barriers that were identified in the task force report, and I hope over the next few weeks and months to announce new initiatives to address each of those areas.

The demand and need for affordable housing are determined primarily by four factors, the first of which is the need to meet the 2012 homelessness target. I can tell the committee that I will strain every sinew in meeting that target, which is a big challenge for us all.

Secondly, we want to make some inroads into the waiting lists of councils and registered social landlords. Although some of the waiting list figures are not among the most robust of statistics, we all know from our surgeries that a large number of people are waiting for houses to rent.

The third factor is changing demographics, particularly as we move more and more to single households. After all, if the average figure per household is just one person—actually, I believe that the figure is just over one—more households will be needed.

The final factor that is driving demand is the impact of the credit crunch and the recession. That subdivides into two major issues, the first of which is repossessions. The second issue, which I suspect is more long term and will be with us even after we get out of the credit crunch, is first-time buyers' inability to afford the deposit that, in this changed climate, they need to obtain a mortgage. That will put more pressure on the need for affordable homes for rent.

Finally, I point out that I and the Government set great store by mixed tenure development. Housing policy can make a major contribution to tackling the economic and social divisions that remain in Scotland, and one way in which the Government can make that contribution is by encouraging and facilitating mixed tenure development.

I hope that I have been able to provide a broad outline of my priorities. I am happy to discuss all those issues in detail.

The Convener: That was helpful, minister. We move to questions.

David McLetchie (Edinburgh Pentlands) (Con): What is your view of the relationship between the conventional affordable housing investment programme and the Government's new council house building initiative, which, at £25

million over a few years, might be modest in comparison with the overall amount but is nevertheless significant for many councils?

Alex Neil: A key requirement of housing policy is for everyone at a local level to work towards the local authority strategic housing investment plan. When we speak to RSLs and other providers, including those in the private sector, we are very much guided by that plan. As you know, we are also trying to ensure that planning mechanisms incorporate issues that need to be addressed, particularly land availability. That applies not only to local authorities as planning authorities and housing providers, but to RSLs and other providers.

Local authority and RSL provision complement each other, but RSLs—and housing associations in particular—will in the immediate future continue to dominate the market numerically. Local authorities can make an important contribution through new developments, but the programme for next year, the year after and even the year after that shows that the vast bulk of new developments will inevitably come from housing associations.

I am happy to share with members some information on the bidding round for the £25 million for local authorities. I stress that, although the average grant per unit to a housing association is around £85,000, the grant for local authority developments under this programme has a limit of £25,000 per unit. That said, local authorities have shown a high level of interest in this initiative; indeed, the bids that we have received total £67 million. If all those bids were acceptable—and I am not saying that they are—they would lead to the construction of just over 2,500 new local authority houses in Scotland. We hope over the next few weeks to announce our assessment of the bids and to confirm exactly how much of the £25 million we can approve in the first tranche, the number of new local authority houses that will be built and where they will be built.

David McLetchie: But as the budget is capped at £25 million it will generate no more than 500 to 600 houses a year, as envisaged in “Firm Foundations: The Future of Housing in Scotland”. We will not get the 2,500 houses that you mentioned.

Alex Neil: I am talking about over the piece. After all, some of these developments will start next year and others the year after. Let us say that everyone gets the maximum subsidy that we are making available to local authorities, which is £25,000 per new unit. If the full £25 million is allocated, there should be the capability to produce 1,000 houses. In any case, a lot will depend on the local authorities that can deliver these houses, because we are restricted to local

authorities that have spare capacity in their prudential borrowing powers.

David McLetchie: I believe that the City of Edinburgh Council has bid for £10 million of the £25 million. I am sure that you will approve that bid as your first priority.

Let us be clear, however: your actual commitment to the initiative is no greater than £25 million.

Alex Neil: We have announced a commitment of £25 million, which is an incentive for, rather than a subsidy to, local authorities in Scotland. If they all hit the max and needed £25,000 per house—and I do not believe that they do—the £25 million should, by definition, produce 1,000 council houses in Scotland during the next year or two.

David McLetchie: Okay. Where do the unsatisfied bids for the £40-odd million above your commitment fall? Do they just fall, or are they—in any way, shape or form—reintegrated into the broader affordable housing investment programme?

Alex Neil: We are talking to every local authority in Scotland about a range of issues, and that would be one of the issues for those authorities that submit an application that we are not in a position to approve immediately. In a number of cases, authorities might need to rework the business plan that they have submitted to us or to address some other issues. We are able to announce some of the allocations sooner than others, because some authorities need to do a bit more work on their proposals. We will talk to those authorities that do not get any of the £25 million about other options within their area to address the housing need that they identified in their application for a share of the £25 million.

Those discussions will cover the homelessness target, once we have carried out an assessment of the progress that each authority is making on that. There will be intense discussions during April, May and June, because by the end of March we will know what progress on that target has been made in Edinburgh—an area in which it is particularly relevant.

With regard to the homelessness target, the baseline figure throughout the country in 2003-04 was that 73 per cent of allocations were made on the basis of priority need. Edinburgh stood at 75 per cent in 2003-04, and its mid-term target was to reach 87 per cent. From the latest available information, it has reached around 81 per cent, so it is somewhat short of the mid-term target.

In considering where to prioritise money, not just for local authorities but across the board, we are trying to match resources to need. For example, we recognise the need in Edinburgh, so if we are

not able to approve all the funding for the local authority application from the City of Edinburgh Council—which, I have to say, is a very good application that has mixed tenure development built into it—we will talk to the council about other ways to ensure that we meet the need for housing provision that it has identified.

David McLetchie: I will stick with Edinburgh and Glasgow, and the mainstream Edinburgh affordable housing investment programme. As I understand it, those two councils in effect administer, and are given a broad allocation for, the further housing investment programme. The rest of Scotland is administered from the centre, by the Scottish Government. When will you be in a position to announce the totals for the grant allocation—the allocation for that purpose—to Edinburgh and Glasgow on one hand, and to the rest of the councils on the other, for next year or the year after, in terms of the budget?

Alex Neil: I will announce next year's allocations on Tuesday, at the Chartered Institute of Housing in Scotland conference in Aberdeen.

David McLetchie: Good; I look forward to hearing those figures. Am I right in saying that once the global figure is allocated to Edinburgh and Glasgow, the prioritisation of expenditure within that total—for particular projects and housing associations, for example—is a matter for determination by the councils and not by the ministers?

Alex Neil: We have a high-level agreement with the city of Glasgow and the city of Edinburgh on the targets that we need them to reach, but within that agreement it is entirely up to them to decide how they allocate resources between different RSLs.

The Convener: I am interested to hear that you will share some information, minister.

Gavin Corbett of Shelter, who has been examining housing investment for 15 years, gave evidence to the committee—which I am sure you have read—that contained some criticism of the current Government for not publishing an investments bulletin. He describes that as

“a major weakness in the transparency of the programme.”—[*Official Report, Local Government and Communities Committee*, 11 February 2009; c 1659.]

Can you confirm the exact allocations for the three years of the affordable housing investment programme? Will the Scottish Government publish a detailed housing investment plan during the remaining years of the affordable housing investment programme and information on the 2008-09 outturn figures, in order to aid transparency and parliamentary scrutiny?

10:15

Alex Neil: You raise two issues, convener: one is about transparency and information and the other is about how far out you can publish your allocations. I will address the latter issue first. It is not realistic to specify beyond a year ahead the exact allocations by local authority area. I do not think that anyone involved in planning housing would announce those allocations as far out as that, simply because there are so many issues. Given the impact of the credit crunch and the recession in the past 12 to 18 months, a very different allocation of money might be set to take account of the variable impact of the recession throughout Scotland. It is not wise to think about the detailed allocations beyond the next financial years.

We know what the top-level budget is for affordable housing. Next year—the year that is about to start in April—the allocation will be £644 million, which includes the £80 million brought forward from the following year. Because we have brought forward and used up some of that money this year and for the coming year, as it stands, the following year's budget is down to £471 million. Of course, I am extremely concerned about any potential knock-on effect if we get a £500 million cut in our overall Scottish Government budget from Westminster.

That said, when it comes to information and transparency, I am absolutely determined to publish wisely as much information as I possibly can, particularly in relation to the committee, but also in terms of what the general public are entitled to. I have looked at the comments that were given in evidence to the committee and at the committee's response to the budget report, and I agree that you are not getting the level of information that you should get. I have, therefore, asked officials to reinstate, as of April, a modernised version of the annual statement that was produced by Communities Scotland to ensure that, as a minimum, we provide the same level of information with the same level of detail as Communities Scotland provided. I am happy to review that situation with you, convener. Although I cannot give guarantees, if you identify any additional requirements with which we can help, you will be knocking at an open door, because I believe in freedom of information. As I said, I accept Mr Brown's criticism, which I think is shared by the committee, and we will rectify the matter in April.

The Convener: I am pleased to hear that. We look forward to seeing the modernised version of the annual statement and welcome your confirmation that the information currently provided is not good enough.

I take your point about not publishing allocations beyond this year and the extended three-year period, but how many homes for affordable rent will be built by RSLs and how many by councils, and how many homes will be built for low-cost home ownership this year?

Alex Neil: The housing associations estimate that they will complete 4,469 homes for rent this year. Other providers, which are mainly councils, estimate 107 housing-for-rent completions. That gives you a total of 4,576 completions of homes for rent anticipated for 2008-09. That number has been exceeded only once, in 2005-06, since the establishment of the Parliament.

The Convener: How many homes for low-cost ownership will be built?

Alex Neil: I think that we will have a total of 903 such completions. We estimate that the total number of homes completed for rent and to buy will be 6,223. If you take 4,576 from 6,223, you will find out how many homes will be built for purchase.

The Convener: That is a bit below the figure that the cabinet secretary gave us in committee a few months ago.

Alex Neil: As you know, we have taken a lot of action and introduced new schemes and initiatives. My predecessor was active in trying to ensure that we reached a much higher figure. I point out that the figures for homes for rent have been matched or exceeded in only one year out of the Parliament's 10 and the total figure of 6,223 describes an unprecedented level of completions for affordable housing.

The Convener: Despite all the action that your predecessor took, we are still falling short of the cabinet secretary's assurance. The cabinet secretary told this committee a few short months ago that the number of completions would be in excess of 7,000.

Alex Neil: We should distinguish between approvals, starts and completions. If you check, you will find that the cabinet secretary may have been referring to approvals. I am giving the committee our estimated outturns for the current financial year, which are record figures.

The Convener: Your point illustrates the need for a bulletin on the investment programme, which would provide transparency and allow us to avoid this to-ing and fro-ing.

Mary Mulligan (Linlithgow) (Lab): I confirm what the convener is saying. Clearly, the cabinet secretary expected 6,000 to 7,000 houses to be completed. Given that, as you indicated, a number of actions have been taken, why has the number fallen back?

Alex Neil: It has not fallen back. The cabinet secretary said that the figure would be between 6,000 and 7,000; we anticipate that the outturn will be between 6,000 and 7,000, so there is no discrepancy.

The Convener: Last week we took evidence from the Scottish Federation of Housing Associations, which expects that, with the change in housing association grant funding, the figure will be in the region of 4,000. Have you seen that evidence? Your officials may be able to help.

Alex Neil: I do not need the officials—I know exactly what I am talking about. Are you referring to the HAG funding changes that were made last year or those that were made in February this year?

The Convener: Both—HAG has changed a couple of times. There was a cut of around £20,000 per unit, £10,000 of which was reinstated. The picture is confusing.

Alex Neil: The HAG figure relates to social rent only. You referred to a cut of £20,000, but the average reduction per unit last year, to reflect changed market conditions, was about £10,000. We have now put in an additional £5,000.

The Convener: So the cut is only £5,000.

Alex Neil: The net reduction is £5,000 per unit. We have record levels of approvals, starts and completions this year and will have record levels next year.

The Convener: You have read the *Official Report* of our meeting last week, at which we took evidence from the Scottish Federation of Housing Associations. We were told that the cut of £5,000 in HAG will result in only 4,000 homes being completed and will put other parts of the programme in jeopardy.

Alex Neil: First, we have no evidence of any substantial project being reduced or cancelled as a result of any of the changes that we have made to HAG assumptions. Secondly, there is a contrary argument. Under a fixed budget, the higher the grant per unit, the lower the number of units will be. We need constantly to strike a balance between the grant that is paid per unit and the number of units that we want to build. If you want me to provide an additional grant of £5,000 per unit from my fixed budget, we will be unable to achieve the record figures that we have been achieving.

Jim Tolson (Dunfermline West) (LD): Good morning, minister. Welcome to the committee; I am sure that you will enjoy giving evidence to us as much as we will enjoy receiving it.

My questions relate to the reprofiling of the affordable housing investment programme,

especially in the budget year 2008-09. Can you provide us with more details of how land allocation is being conceived and delivered? What impact will that have on the building of properties on sites identified for development? How is the Government giving the taxpayer value for money from the reprofiled expenditure?

Alex Neil: I want first to look at the broad picture on reprofiling. We have brought forward from later years a total of £120 million. Forty million pounds has been allocated in the current financial year. As members know, of that, £5 million has been given to the mortgage to rent scheme, about a third has gone to land purchase, a third has been used to buy up empty property in areas where there is housing pressure—primarily in Edinburgh and, more recently, in Fife—and a third has been used to stimulate additional new-build projects.

The £80 million of reprofiled money that we will spend in 2009-10 will not be separated out and treated differently—we have mainstreamed it. We will identify our priorities in the total budget of £644 million—a record amount—for next year.

The balance between encouraging new starts and assembling strategic sites for land is an issue that we are considering very carefully. For me, two points stick out a mile. First, as a result of the credit crunch and the recession, there has been a substantial overall reduction in average land prices in Scotland. We can take some advantage of that in areas of housing pressure by buying land for much less than it would have cost us last year. However, I want to ensure that we give priority to buying land where we can build houses within the next three years or so, rather than to buying land that will not be available for building for 10, 15 or 20 years. It is important to get our priorities right.

Secondly, we need to ensure that we deal with the infrastructure issues that have arisen. As members will know, something like 12 per cent of RSL housing programmes—particularly those of housing associations—have been funded to a large extent by land within private sector developments. Typically, when a private sector developer gets planning permission for housing, part of the deal with the local authority is that the developer makes available about 25 per cent of the land at a discount price for social housing. Given that, relatively speaking, very little private sector housing development is happening—an issue over which we have limited control or influence, as we are dependent primarily on policies from London—we will not have as much as 12 per cent this year or next year. Therefore, we will need to make that up just to stand still if we are to continue to provide land for affordable homes.

Jim Tolson: Towards the end of his opening remarks, the minister made great play of the need

for mixed tenure, with which most members would agree. Given that his comments a moment ago suggest that the Government has not yet quite come to a judgment on the issue of land balance, might more of the balance come from picking up land that is available within private housing developments so that we can achieve mixed tenure more quickly? Will consideration also be given to bringing completions from the private sector into the public rented sector?

Alex Neil: I strongly dispute that we do not have a clear view about what we need to do with land. I clearly stated that our priority is to acquire land by any means possible at the cheapest price possible that secures value for money for the taxpayer. In particular, we are giving priority to new build this year, next year and the following year because we recognise the importance of meeting the homelessness target and of making progress in running down waiting lists. We have a very clear strategy, but that must be translated into 32 different strategies in the 32 local authority areas. The strategy that might be applied in Edinburgh would be entirely different from the kind of strategy that might be applied in Oban, the Western Isles or Inverclyde, where the availability of land is different.

For our next meeting of the housing supply task force on 16 March, I have asked that the two substantive items on the agenda should be planning infrastructure and land issues, which are the two issues that we need to tackle. On average, the price of a housing association new home in Scotland has been running at £130,000, of which £11,000 has been for land. One issue on which we are working with local authorities and other public agencies—primarily health boards—is to try to achieve a quicker turnaround of their surplus land so that a higher percentage of suitable land is available for use in the building of affordable homes. We are treating that as a matter of urgency, because the less land that we need to buy at market levels, the more money there will be for the rest of the housing programme.

The Convener: That is an interesting point. From conversations with my local council—I think that other councils are doing the same—it seems to me that councils are holding on to land because they are anticipating land price increases, which will help them to balance their budgets over the coming years when there will be no surpluses. Are you suggesting that local authorities or health boards should sell land at a low point in the market, at the expense of health and local government services?

Alex Neil: No, I am suggesting that we need to talk to local authorities and health boards about how we can use their surplus land or a share of it to help us increase the amount of affordable

housing that is available. That aspiration is shared by the Convention of Scottish Local Authorities and the Scottish Federation of Housing Associations, and I thought that it was shared by every political party in the Parliament.

10:30

The Convener: We are trying to examine your strategy and your policies, so we are entitled to ask such questions.

Alex Neil: Of course.

The Convener: Part of the reason why there is surplus land is that councils and health boards are holding on to land because they would not get the expected value if they sold it, so they should not be pressurised to do so.

According to evidence from the housing task force and others, the availability of land was a big issue just a year or so ago, but as we have heard that is not necessarily the case now. Cheap land is available; it is getting the money to build the houses that has become the problem, as you indicated when you said that there is significant demand for the money that is available to councils.

Alex Neil: Let us take the example of Glasgow, where there are eight transformational areas. Glasgow City Council has signed up to making available its surplus land in those areas as part of the overall regeneration programme, which includes the provision of social housing. That land goes into a pot, on which the council will eventually make a return. There are different deals in different parts of the country.

What I am saying is that it makes perfect sense for us to make the maximum use of surplus land in the public sector to help increase the number of affordable homes that we build. I understand that some councils do not want to sell some of their land at the moment, particularly land that would be sold on the open market for purposes other than social housing, because they think that they will get a bigger bang for their buck in two, three or four years' time. That is fine; it does not run across our efforts.

We are talking to local authorities about their proposals for the £25 million that we are providing. Some local authorities have the advantage of being able to use their own land to build their houses on, which helps them to keep down the cash cost of their new housing. That is a perfectly sensible policy. The committee is right to press me to up the numbers, so we will adopt every innovative proposal that we can in relation to the availability of land and every other barrier to building more houses. It will be horses for courses. Different approaches will be adopted in different parts of Edinburgh, Glasgow and the Highlands.

I would have thought that every committee member would have signed up to the fundamental principle of maximising the contribution that surplus land that is already in the public sector can make to achieving our housing numbers.

The Convener: I have two final questions. You mentioned the £120 million of capital investment. Can you give the committee an up-to-date outline of how that money has been allocated across 2008-09 and 2009-2010? Can you assure us that the total budget that has been allocated to the current year, including the additional investment that has been brought forward, will actually be spent this year?

Alex Neil: I dealt with the profiling in my answer to Jim Tolson. As far as the £40 million that was allocated to the financial year that is coming to an end is concerned, £5 million was set aside for mortgage to rent, which is an extremely popular programme. The remaining amount was split three ways between strategic land purchase, new builds that are nearly ready to go and the empty houses that are available in places such as Edinburgh and Fife.

The Convener: How much does that come to?

Alex Neil: It comes to a total of £40 million. I could give you the exact figures but, broadly speaking, that is how that £40 million was spent. The remaining £80 million of the £120 million that has been brought forward will go into the new financial year. Rather than have a separate profile for that £80 million, we will mainstream it into the budget. We will put it into the big pot so that we can assess, from an economic and social point of view, where the housing priority is. Regardless of whether it is accelerated money or money that we had planned to spend next year, we will spend it according to the priority needs for housing across Scotland.

The Convener: And it will be spent this year.

Alex Neil: The money is spent. The £40 million for this year and the £80 million for next year have been allocated.

Bob Doris (Glasgow) (SNP): Welcome, minister. We have talked a lot about budgets and what will be spent in 2008-09 and 2009-10. We will come on to 2010-11 in a minute. Just for the record, can you tell me what the overall three-year budget is for the affordable housing investment programme?

Alex Neil: It is £1.6 billion.

Bob Doris: How does that compare with previous settlements?

Alex Neil: As I said earlier, we are spending a record amount of money. Since the Parliament was set up, we have never spent on that scale

over a three-year period. The spending is now showing record results for the completion of houses for rent and the overall number of affordable homes for rent and for purchase.

Bob Doris: I would be right in saying that most groups have broadly welcomed the front loading of money in that investment programme for the three years from 2008-09 to 2010-11.

Alex Neil: Absolutely. We front loaded the money for two reasons. First, it is part of our six-point economic recovery programme to try to make what contribution the Scottish Government can, within our limited powers, to tackling the issues that are caused by the recession and the credit crunch. The second reason for front loading the money was to give priority to housing because we recognise the importance of housing to achieving our wider targets of making Scotland healthier, wealthier, fairer, safer and greener.

As I said earlier, however, I have real concerns about the medium term—this is not a party-political point—if we have a cut in the Scottish budget of £500 million a year for the financial years 2010-11 and 2011-12, which is £1 billion over the two years. Inevitably, that will affect all the essential services that we provide in housing, education and so on. If our budget is cut by £1 billion over those two years, it will be very damaging right across the board.

The Convener: Just on that point, which I accept is not a party-political one, can you tell me what the real-terms cut over the next three years will be?

Alex Neil: The cut in what?

The Convener: The cut that you just described.

Alex Neil: There would be a £500 million cut in both 2010-11 and 2011-12. The real-terms cut depends on what baseline we take. Taking the current review period as the baseline would give a different figure from taking the new review period as the baseline. Put it this way: it is a substantial cut in our budget.

The Convener: You mentioned a figure for record spending on housing of £1.6 billion. What will that figure be over the next three years?

Alex Neil: In real terms?

The Convener: Do we take £500 million or another amount off that? In real terms, what figure will that £1.6 billion fall to?

Alex Neil: Let us be clear what years we are talking about. The three-year period for the £1.6 billion is 2008 to 2011. The £500 million cut that, according to the Chancellor of the Exchequer, we can anticipate starts in the final year of the three-year period, which is 2010-11, with a further £500 million cut in the new spending round of 2011-12.

In terms of the Scottish Government's budget for the three-year period, as current plans stand, the overall cut will be £500 million. However, we hope that we will not have that cut and therefore will not need to cut essential programmes in housing, health and education.

The Convener: We get your point, minister.

Bob Doris: I was coming on to ask questions on that point anyway, minister—they were going to be two questions away, but they are now several more questions away.

My next question is not about the potential cuts of £0.5 billion per annum for two years, but about a fixed-income budget for 2010-11 for AHIP. Even if no cuts come from Westminster, we will spend £170 million less in 2010-11 on AHIP than in 2009-10 because of the front loading. What effect will that have? Surely, with a cut of £170 million because of the reprofiling, we cannot deliver in 2010-11 anywhere near what we can deliver in 2009-10. How can we cope with that under a fixed AHIP budget?

Alex Neil: That is why we are considering a whole range of issues that need to be addressed in order to get more bang for our buck. For example, £105,000 of the £130,000 average cost of a new housing association home is the construction costs. However, construction costs have fallen dramatically in recent months. The other day, a senior official from one of Scotland's universities told me that the university has just re-tendered for a new library. The re-tender has come in at 50 per cent below the original tender simply because builders are so anxious to get work.

That is why I am anxious not just to get the completions but, more important, to get the approvals and the starts that we are in the process of approving in order that we can take advantage of the current reduction in construction costs. If we get the approvals done and get some of the funding feeding through, that might allow us to get more bang for our buck next year, and we may be able to build more houses for the same money simply because the unit costs have reduced. So, we are looking at a variety of areas.

Another constraint is the private loan capital that housing associations must raise, which is typically about a third of the cost of a new home. For a new home that costs £130,000, the grant will be £85,000, on average, and the housing association will have to raise £45,000 in loan capital. Clearly, that can be very difficult at the moment.

There are three or four issues around loan capital that can act as a major constraint. The first is access to that capital. The second is the repayment terms. We have heard that some lenders are demanding repayment periods of as

little as 10 years, which is absurd in housing finance. The third issue is the fact that the rate of interest on the loan will be substantially higher than it should be, and the arrangement fees and other fees will also be high. If we can tackle that problem imaginatively, not only we will be able to build as many houses for less money but, because we can get a bigger bang for our buck per unit, we might be able to reach targets that we have been unable to reach in the past for that kind of money.

Bob Doris: Putting completely to one side what happens with Westminster budgets and cuts, I just see a structural flaw whenever a fixed budget is reprofiled. The social rented sector is storing up the pain unless we can drive real efficiencies into the process. I just wanted to put that on record, as that is the nature of a fixed-income budget.

Alex Neil: There is another consequence. As the housing minister, I am keen to maximise our numbers and build on the record investment that we have made. However, because the Scottish Government has always had a fixed budget, if we spend more on housing the money must come out of education, health or something else. Such are the choices that we are wrestling with.

Bob Doris: My final question is on the £25,000 incentive to get councils moving on council house builds. If that scheme is way oversubscribed and good-quality bids are received that would require in excess of the £25 million in subsidy, but you have the £80 million coming into the 2009-10 budget as part of the overall AHIP budget—it is not ring-fenced for a specific purpose—will you keep an open mind about increasing that £25 million pot of cash? A subsidy of £25,000 per unit is a lot better value for money than a subsidy of £60,000 or £70,000 per unit.

Alex Neil: Well, let us take it one step at a time. Let us try to ensure that we use the £25 million properly and get a good return on it in terms of the number of new, good-quality rented houses that we can build—ideally, in mixed-tenure developments. After that, we will consider whether there is any other pot that we can raid. However, it would be premature to consider that at the moment.

Bob Doris: Always optimistic, minister.

Alasdair Allan (Western Isles) (SNP): Let us return briefly to the question of land. You mentioned the issue of RSLs buying land. Will that include what might be called off-the-shelf purchases of sizeable estates, and will that help you as you strain your sinews towards the 2012 target?

Alex Neil: It will be a mixture. Again, it is a matter of horses for courses—it depends on what the particular RSL suggests. For example, I was up in the Raploch on Monday morning and the

work that the urban regeneration company is doing there is absolutely first class. There, the council contributed the land as part of its contribution to the wider development. The URC did not need to go out into the private market and buy the land at an extortionate price. That made the economics of what is being done in the Raploch stack up well. In areas such as Edinburgh, land prices are much higher, which might force some RSLs to buy land off the shelf, including from private sector owners, to achieve their targets.

It is horses for courses. That is why the Scottish Government's job is to enable local authorities to allow housing associations to achieve the best deal in buying or obtaining land. In some areas, that will involve working with the council—the Raploch project is an example of that, where the council is contributing the land. In other areas, it will involve trying to persuade a health board to allow us to use more of its surplus land under a better deal than it is offering, or buying off-the-shelf land from whoever owns it. It is horses for courses. Our job is to enable the deliverers to do whatever is appropriate in their area to achieve our targets.

10:45

Alasdair Allan: The other side of the equation is low-cost home ownership. I understand that the emphasis has shifted away from RSL-provided shared equity schemes to other solutions, such as open-market shared equity schemes. Will you say more about that? Does that present any dangers in the current price regime for housing and land?

Alex Neil: As you know, because of the changing market conditions last year, we recognised that the new-build shared equity scheme would not achieve what it would normally achieve in a robust home ownership market. We are still approving some such schemes in some areas but, by and large, the emphasis has shifted to the open-market shared equity scheme. The pilots of that scheme proved successful in the 10 local authorities in which they operated. As you know, we are rolling out the scheme throughout Scotland and we have increased its budget from £24 million to £60 million over two years.

Alasdair Allan: Have you assessed the potential problems that are associated with falling house prices?

Alex Neil: A risk assessment is undertaken of exactly what we do. By providing what is in effect a grant, we buy a share of the equity in the house. That allows the owner to reduce their mortgage payments. If and when the house is sold, we recoup our money.

The Convener: We took interesting evidence about what is available to help people stay in their homes. As you said, the mortgage to rent scheme is popular. We can identify the number of people who have benefited from it and who have retained their homes. However, the evidence—you said that you read it—showed less enthusiasm for the mortgage to shared equity scheme. It was said that few people who benefited from the mortgage to rent scheme could afford the shared equity scheme.

Alex Neil: That is why we have provided the option. The decision is up to the individual. I agree that the mortgage to rent scheme is probably more popular than the mortgage to shared equity scheme, but we thought it right to offer shared equity because quite a number of people who are in such a position want to retain ownership and hope that eventually—perhaps they have lost their job and hope to obtain another in the near future—they will be able to buy us out so that they own the whole property again.

I will make a couple of comparisons with what is happening down south. We have committed £35 million of our money to mortgage to rent and mortgage to shared equity schemes, in comparison with £200 million of United Kingdom Government money for the rest of the UK. Proportionally, we are doing well. The other important difference is that the commitment down south is such that the RSL must match fund Government money. We ask RSLs for only about 30 per cent, not 100 per cent. Our schemes are much more flexible, are relatively better funded and put less pressure on RSLs to contribute. In the current atmosphere, that is right.

The Convener: You said that the open-market shared equity scheme was successful in the 10 pilot local authority areas. Can we have figures on that? How many people were involved?

Alex Neil: We are happy to share all the details with you. That is no problem.

John Wilson (Central Scotland) (SNP): Off-the-shelf developments do not concern only off-the-shelf land; there was some talk previously about RSLs being able to buy properties that were not selling on the open market from developers. What are the minister's comments on the concerns that have been expressed at the committee and elsewhere regarding build standard and the quality of developments? Has he approved any purchases of that nature by RSLs? I am referring to situations in which developers have found it difficult to sell property and have offered that property to RSLs.

Alex Neil: Our off-the-shelf purchases have been geographically fairly restricted—primarily to Edinburgh and, to a lesser extent, Fife. There

does not seem to be a great volume of them across the country. So far, the number is in the low hundreds, rather than in the thousands. We should get the contribution of such purchases into perspective. They tend to be in areas where there are particular pressures that are difficult to deal with in other ways—the two examples are Edinburgh and certain parts of Fife.

I share the concerns that have been expressed. The issue is not just about which properties we buy. Private developers have a lot to learn from housing associations, particularly about internal quality.

To return to the example of the Raploch in Stirling, one of the proudest boasts of Campbell Christie, chair of Raploch URC, is that Cruden Homes decided that, because the development was mixed tenure, its share of the housing for sale would be built to the same standard—the quality of the doors and all the rest of it—as the housing association's standard. I want that to be replicated throughout Scotland. Housing is not just about numbers; it is about quality, standards and the facilities in the community. Cruden has given us a very good example. It is an exemplar of what the private sector should be doing, particularly—but not exclusively—in developments such as those that are happening at the Raploch.

Mary Mulligan: I will take you back to an earlier question, minister. You raised a point about the proposal for £500 million of savings in 2010-11. What will the Scottish Government's budget be for that year?

Alex Neil: At the moment, it is scheduled to be of the order of £34 billion. If we take out bespoke commitments, such as pension commitments for teachers and the police—as you know, we voted through a substantial increase in the pension provisions quite recently—the amount of money that we have to allocate between programmes, or the amount of money that we have to play with, if I may put it that way, is a lot less than the headline figure. The budget gets tight. A very high proportion of the Scottish Government's budget is bespoke.

Mary Mulligan: I never play with money, minister.

Alex Neil: I never have any to play with.

Mary Mulligan: Clearly, that figure represents an increase on the present budget, with all the demands that we presently have. Of that £34 billion—

Alex Neil: Sorry, can I just stop you there—

Mary Mulligan: No—I am asking the questions here.

Alex Neil: Yes—fine.

Mary Mulligan: Referring to that £34 billion, the figure that you have given for the housing programme is £471 million. I know that you are very good at your figures, minister, so what percentage is that?

Alex Neil: It is roughly 1 per cent.

Mary Mulligan: Is that an increase on the present percentage or not?

Alex Neil: The percentages have remained pretty steady over the past two or three years. Of course, we will get a relatively big increase in the percentage in the incoming year, because we have accelerated the programme.

Mary Mulligan: In evidence to this committee, when we were considering the budget, the cabinet secretary told us that she expected 21,500 houses to be approved over the three-year period. I know that we all have difficulty remembering what has been approved, what has been completed and what has been started. Do you still expect that to be the figure?

Alex Neil: That is the figure that we are working towards over the three-year period. As I said, we are driven by the need to meet the homelessness target and to make inroads in the waiting list. The figure of 21,500 is definitely the operational target that I am working to for approvals over the three-year period.

I do not underestimate the difficulties in reaching the target, but I will also say this: if there is any way in which we can exceed the figure, I will do my utmost to ensure that we do that. It is a number 1 priority for me to increase the supply of affordable housing both for people to rent and for people to buy. If we can achieve better deals on loan capital, or if we can reprofile some of the spend between different streams of expenditure, in order to improve the numbers without in any way compromising the quality, I will do it.

Mary Mulligan: What will be the breakdown between houses for affordable rent and houses for low-cost ownership?

Alex Neil: Because of the credit crunch, I expect that the finalised figures for this year and next year will show a slightly higher percentage of homes to rent rather than homes to buy. People are more inclined to rent under such circumstances.

When we talk about the provision through Scottish Government money of affordable homes to rent and buy, a rough rule of thumb tells us that just over 70 per cent are to rent and around 30 per cent are to buy. That has been fairly consistent over the past 10 years or so.

Mary Mulligan: I understand the minister's reticence in predicting figures, but I am sure that he has had the opportunity to study the figures

that the Scottish Government produced last week on site starts. In the second quarter of 2008, the figure was 6,709; but, in the third quarter, the figure dropped to 3,173. When the figures are reducing in that way, it is clear that you will struggle to reach the figure of 21,500. What can you do to reverse the reduction?

Alex Neil: Meeting the 21,500 target will be a major challenge. There is no doubt about that. A range of factors come into play, not the least of which are financial factors. However, we are considering all the barriers in the way of achieving the target, and we are trying to remove as many of them as we can.

I have been in my job for only three weeks, and I am not yet in a position to come up with a prescription for what we will do to try to ensure that we meet the target. However, over the coming weeks and months, that is exactly where my focus will be.

The provision of affordable housing, especially housing to buy, suffers from a knock-on effect from conditions in the general housing market. I was glad to see this morning that the latest survey from the Nationwide Building Society suggests that we may be at, or near, the bottom of the market fall in new mortgages and so on. Now, I do not want to comment too soon, and I certainly do not want to talk about green shoots of recovery, but we will track the situation from month to month. There is no doubt that current market conditions have knock-on effects—not the least of which is the effect on the availability and cost of loan capital. That effect is detrimental to our ability to provide social housing at the level of our target.

Mary Mulligan: I come to my final question. A number of the houses that are not being built would have been for owner-occupation. However, the more damning figure is the reduction in the number of housing association houses that are being built. Your Government is directly responsible for that. Did your Government's decision to change the HAG formula result directly in the reduction in the number of housing association houses that were built, from 550 in July to September 2007 to 320 in the following year?

11:00

Alex Neil: No, I do not think that it did. As well as studying economics at university, I did statistics. In relation to housing statistics, it is dangerous to place too much emphasis on the quarterly figures, as the annual figures are what matter, and the annual figures show record levels of completions, starts and approvals.

Mary Mulligan: I said that that was my final question, but I must take you up on that. I was

talking not about one quarter, but about the second and third quarters of last year. Therefore, that establishes a trend. I hope that the figures for the fourth quarter show an increase.

Alex Neil: Because of the seasonality in the building trade, even taking two quarters can be dangerous. The annual figures are what matter.

Mary Mulligan: We are talking about July to September—sunny weather!

Alex Neil: My point is that the figures that matter fundamentally are the annual or year-on-year figures, because of the vagaries of the building trade and what happens during any one year. The fact that the building trade operates to a calendar year and we operate to a financial year is another wee complication that might affect the figures in some areas. I am interested in the comparisons from year to year, which show that, with the exception of one year, we have record levels of homes for rent. If we consider the total picture, we have record levels of spend and record numbers of houses that we are approving, starting and completing. That is the best record in 10 years, although it is still not good enough and we need to do more. We need to get the figure up to nearer the 7,000 mark and possibly even more, if there is any way in which we can do that. I have no doubt that we are travelling in the right direction—I just want to increase the speed a wee bit.

The Convener: We have to guard against complacency. Forgetting about all the other figures, the evidence that we have received from experts in the field in the past couple of weeks is that, if we are to achieve the homelessness targets and deal with repossessions, we need 10,000 houses a year. Your ambition and the difficult target that you are setting are well short of the figure that the experts in the field believe is necessary if we are to reach those other targets.

Alex Neil: I am not going to tie myself down to a specific figure, whether it is 10,000 or any other number. We should not underestimate the importance of the need to match resources and need more closely. The £25 million for the local authority housing programme is absolutely the right thing to do, but there is a constraint built in for any council that is already up against it in its prudential borrowing requirement. That could be the very council that has the greatest housing need. Therefore, I am considering whether we can do even more to align resources with need. With a better alignment between resources and need, achieving the homelessness target would be a lot easier.

An analysis of the homelessness figures show that about 10 authorities account for 65 per cent of the problem in Scotland. However—I say this particularly for the deputy convener—we must

consider the issue in another way. That analysis suggests that we should put all the resources into the larger authorities, but if we consider the percentage of total households that are homeless, we find that some rural areas have a serious homelessness problem as well. Although it might not take a large number of new houses to solve the problem in rural areas, we must nevertheless try to get resources into rural areas as well as into urban areas. We have rural homelessness as well as urban homelessness.

My predecessor initiated a review of the financial assistance that we provide through the likes of the rural empty properties grant, which should be complete in the next few weeks. The aim is to consider whether we can make those measures more effective to help tackle rural housing problems in Scotland.

Patricia Ferguson (Glasgow Maryhill) (Lab): I apologise in advance, because my questions, which partly reflect my particular interests, will be a bit of a mismatch. That is a consequence of coming in at the end of the questioning.

You correctly identified in your opening statement the issue of repossessions and first-time buyers having difficulty obtaining a sufficient deposit to get a mortgage. Mortgage lenders are now looking for a more significant deposit than previously, which is not necessarily a bad thing. Are you considering any action that might assist people who are buying for the first time and who are struggling to obtain a mortgage because they do not have enough for the full deposit? Is there anything that you can do in that regard?

Alex Neil: As you know, we introduced the low-cost initiative for first-time buyers, which has two main strands to help people, particularly with shared equity. The banks need to do a bit more to help people on lower incomes get on to the housing ladder. I know that things are difficult just now, but I am looking at having serious discussions with the banks. We do not want to return to the bubble-and-burst scenario that we had before, where people were getting mortgages of seven times their income or 125 per cent of the value of the house. Between that extreme and the other extreme, which we have reached in recent months, there is perhaps a happy medium whereby we can do more to help first-time buyers get on to the first rung. Converting rented accommodation into shared equity is a good way of doing that. We will consider whether, working with banks and building societies, there is any other way to make it easier for people to get on to the housing ladder if they wish to do so.

Patricia Ferguson: I suspect that shared equity will not be everyone's preference—in any case, the opportunity might not always be available, depending where people live. I understand that in

England—and perhaps in Wales—a scheme is coming forward in which the Government will give first-time buyers loans to help them to get their deposit in the first instance, particularly where there is a gap between what they can afford and the sums involved. Are you looking at a similar scheme?

Alex Neil: We are involved in close discussions with Westminster about that. Shona Stephen was down there last week talking to Hazel Blears's department, which is handling the scheme—number 10 is heavily involved, too. We are working extremely closely with the Westminster Government to ensure that whatever is available south of the border is available north of the border, or even something better. From the latest information that we have, we believe that the aim is to announce the new scheme some time in the spring—we believe that it will be in April. We will continue to work with Hazel Blears's department and number 10 to ensure that everybody in Scotland benefits from similar assistance to that which might become available under the new scheme.

Patricia Ferguson: I look forward to hearing more about that.

Some time ago, when the Cabinet Secretary for Health and Wellbeing made one of her big policy announcements to Parliament, she introduced the concept of a lead developer. In the current climate, would you particularly wish to develop that concept? How would you see it rolling out across Scotland? What sort of reaction have you had from housing associations?

Alex Neil: The consultation on that finishes on 17 March. It is a genuine consultation. We are listening. In particular, I am listening—I have read the evidence received so far and I have a close ear to the ground on the issue, because I know that it is controversial. It would be wrong of me to prejudge the outcome of what is a genuine consultation.

Having said that, we need to get a bigger bang for our buck where we can. The primary motive of the consultation is to consider how we get more efficiency into the system. On Monday, I was at Cordale Housing Association in Renton in West Dunbartonshire. I recommend that the committee visit it, because it is an exemplar of what a housing association can do not just in housing but in the wider community. It has a fairly big portfolio of investment. It has well over 400 houses, runs a chemist and a post office and has just opened a 40-unit care centre for the elderly—it is a sheltered and very sheltered-type housing complex. One of the big boasts from the chief executive and chairman of Cordale is that they run the entire organisation with an administrative staff of four. People recognise that we need to be as efficient

as possible. We cannot ask everybody else—local government and others—to improve efficiency but say that we are not going to do that in the housing sector.

I have already mentioned some of the better bangs for the buck that we might be able to get in the shorter term, both in construction costs and possibly the acquisition of certain sites. We must pursue better value for money where we can, without compromising either standards or quality of design.

There has perhaps been some stimulation of activity as a result of both "Firm Foundations" and the consultation "Investing in Affordable Housing", which is out at present. An example of what is happening in Scotland is the Highland Housing Alliance, which brings together all the key players in the Highlands to work together. It has its own land bank up and running, which appears to be successful, despite the difficult circumstances. It is possible that the Highland Housing Alliance could do the job of lead developer. Although it does not meet the strict criteria as they are currently defined because it is not an RSL, it might be that those involved will come to us and say, "Look, we would like to work through the alliance, which is up and running, rather than bring in another body and designate it to do the job." If that happens, we will discuss it.

We are not daft. We want to ensure that, in every area, the right horse is on the right course. The new arrangements in the Borders, Fife and Edinburgh are encouraging. If they show that they can achieve the efficiencies that we seek with their arrangements, we will take them on board. I am not giving any commitments or a view on any of the specifics, because there is a genuine consultation on the matter and I am genuinely approaching it with an open mind. When I see the responses and, with the cabinet secretary, have had time to consider them, we will come back to the Parliament and tell you our response to the responses.

Patricia Ferguson: That is interesting. In relation to efficiencies, I am glad that you recognise that housing associations are often about more than just houses. Indeed, I claim that the fact that they have a wider action agenda is one reason why they are so popular.

Perhaps one reason why costs are sometimes slightly higher with RSLs is that they tend to be the organisations that build homes for the disabled. In my constituency, some very good disabled housing has been provided by a variety of RSLs, which obviously have a much bigger community focus and provide the kinds of things that you saw at Cordale. The point about the cost of houses that are built by RSLs is an interesting one that none of us should forget.

If the lead developer idea comes into its own when the consultation has closed and you have made your announcement to Parliament, do you foresee that there will be a role for Glasgow Housing Association?

Alex Neil: It is obvious from GHA's business plan that it sees itself as potentially the lead developer in Glasgow, but it would be entirely wrong for me to get into the specifics of that arrangement before I have had time to consult GHA, the council, the Glasgow and West of Scotland Forum of Housing Associations and the other key players. At the moment, I am not going to make a judgment about who the lead developer should be, and I am certainly not going to make a specific comment one way or the other about GHA's ability to be the lead developer. It would be entirely wrong for me to make such a comment at this stage in the proceedings.

However, I will say that, like you, I am a big fan of local housing associations, not just as providers of houses but as key players in the development of communities. We cannot go back to the old days and have huge housing schemes with no community facilities and all the problems that became associated with that. I share your aspiration for housing associations to continue to have an important role. In the area that I cover, for example, there are some excellent housing associations—Clyde Valley Housing Association and Wishaw and District Housing Association, to mention but two. Wishaw and District Housing Association is first class and has shown the way. It is an exemplar from which the housing association movement and others can learn.

11:15

On Glasgow, I remind the member that we have opened up the possibility of cities or regions having more than one lead developer. I do not want to give any commitments, because I want to see the responses to the consultation before deciding how to proceed. I am determined to ensure that, where we can, we get more bang for our buck, without any diminution of quality and standards or the wider community role that HAs play. I am also keen to keep matters as local as possible, so that we do not end up creating vast bureaucracies that tell local folk what to do. That is not the culture that we are trying to create—we are seeking much more localised control, management and ownership of housing. I am keen to ensure that, as far as possible, power in housing is devolved to local communities. The member will agree with me on that.

Patricia Ferguson: I view GHA as a transitional organisation, but I am not sure that it sees itself in that way. You have GHA's business plan. Given the aspiration that you have set out, are you

dissuading GHA from regarding itself as potentially the lead developer?

Alex Neil: I am far too long in the tooth to get into that today.

Patricia Ferguson: I look forward to pursuing the matter on another occasion.

Alex Neil: We will.

The Convener: At least that was a short answer. Another four members have questions. If we get short questions and answers, we will be able to get out of here for afternoon tea.

John Wilson: Last year, the Cabinet Secretary for Health and Wellbeing appeared before the committee to discuss housing association finances. She indicated that, collectively, housing associations have reserves of £300 million. Are you discussing with those housing associations that have reserves how they will use them to enable us to meet the targets on housing provision and homelessness? There is no point in organisations having reserves when we are driving towards those targets.

Increases in rent levels for many housing associations are pegged at the retail prices index plus 1 per cent. Do you envisage problems arising in relation to associations' rental income? Will the reduction in RPI, particularly when HAG funding has been reduced, affect their ability to raise money through rental income and impact on their desire to develop and build more houses?

Finally, have you had discussions with the SFHA or employers in voluntary housing about pay levels? I took on board your point about keeping housing associations local, but there is a debate to be had about economies of scale within the housing association movement and about whether small housing associations can continue to exist. Is it necessary or possible to pull together some locally based housing associations to produce economies of scale in development programmes, so that they can act as the lead developers in particular areas?

Alex Neil: Let me take those three questions in the order in which they were asked. First, John Wilson is absolutely right that, at the last count, the Scottish Housing Regulator identified that £300 million of reserves is held by the 170 or so housing associations that engage with us. We suspect that a fair amount of that money is already earmarked for issues such as reaching the Scottish housing quality standard and various other investments in the wider community, including future housing. However, I want to engage with the housing associations to identify how much of that money is not earmarked for particular projects.

I have already asked my officials to do some work on this. If, on the one hand, housing associations are finding it difficult to borrow money from banks and building societies on the right terms—repayment terms, levels of interest, arrangement fees and all the rest of it—while, side by side with that, other housing associations are sitting with reserves, it seems to me that those reserves could be used to provide loan capital to the housing associations that are struggling to find such capital. In other words, I have commissioned a piece of work on whether it is possible for us to create a mechanism whereby some of that money could be recycled within the housing associations to help to provide some of the loan capital that is difficult or expensive to get from the market. We have just started looking at that.

Obviously, the money belongs to the housing associations, so I cannot—and would not—go in and tell them what to do. The housing associations would have to fulfil their fiduciary duty in ensuring that any scheme did not put their money at risk and that they received a reasonable return. However, if it is possible to recycle that money within the housing association movement in Scotland, we should look at how we could do it. We will certainly work with the housing associations to see whether such a mechanism would be possible and, if so, how it might best be implemented.

Secondly, on the impact of RPI on rent levels, in judging and assessing new applications for the housing association grant, a key part of the calculation is the estimate of rental income. At present, we have no proposals to raise the cap on rent increases to RPI plus 2, 3 or 4 per cent. Obviously, we need to take account of changing circumstances, but we have no plans to change that at the moment. However, I take the point about the assumptions on RPI, which are changing. In fact, it is possible that RPI could become negative in the months ahead. To answer the question—which was on how rental income might be increased in future—we have not looked in detail at the issue because, so far, RPI has not gone negative. However, I take the point about the need to keep an eye on that.

Thirdly, there are two or three broad areas in which efficiencies might be achieved. I have already mentioned land. In some areas, housing associations might be able to secure better deals on land acquisition and on the costs associated with construction contracts if they operate on a more collective basis.

From my own background, I am absolutely convinced that housing associations could work on a more collaborative basis in raising loan capital rather than loan capital being raised on individual projects. There is some scope for savings there. If

housing associations used their collective purchasing power with the banks and building societies, they might get a better deal than would be achieved by each housing association seeking loan capital for its own projects. I absolutely agree that there is scope on that. We will work with the housing associations to identify those potential savings and economies.

Of course, the whole purpose of making such savings is to enable any money that is saved to be reinvested in affordable homes. To come back to my original point, if we are able to make economies, the money will not go to some fat cat in the city; it will go straight back into the housing association movement to build more units. I want housing associations to build more units without in any way reducing quality and standards.

The Convener: These have been good, insightful questions and answers so it is tempting to go that wee bit further with our limited time, although we do not want to keep you any longer than necessary, minister.

David McLetchie: I was intrigued by the minister's exchange with Patricia Ferguson on the subject of consultations. Does the Scottish Government undertake any consultations that are not genuine?

Alex Neil: I was talking historically.

David McLetchie: I see. So there is no such thing as a non-genuine consultation undertaken by the present Scottish Government—is that right?

Alex Neil: I could say that that was one of the policy changes in 2007, but I am sure that we do not want to go there.

The Convener: Or more recently.

David McLetchie: Would you clarify the distinction between a genuine consultation and a non-genuine consultation?

Alex Neil: With consultations, no matter what the subject is, some people think that the Government has made up its mind and is just going through the motions. I am trying to make it clear that, as far as the Scottish Government is concerned, any consultation that we undertake—including the current one on lead developers—is done because we want to hear what people have to say.

Members can consider our track record. The cabinet secretary reintroduced a higher HAG in February because she listened to what people were saying—that is a good example of what we are prepared to do when there is a convincing case. Another example is on repossession. There has recently been some controversy in the press on the subject, including comments by Mike Dailly, the chief executive of the Govan Law Centre, who

thinks that we need to do more on the legal side. I have spoken to Mike, and he is coming to see me next week, along with Fergus Ewing, who is the other minister responsible for debt issues, and the officials involved in repossessions policy. We will listen to what Mike has to say, and we will talk through the issues that he believes we have not addressed adequately. We will either agree or disagree—indeed, we might partially agree or partially disagree—but we will listen to what he says.

We are a small country. No one has the monopoly on wisdom or truth and, if someone who is operating in the field has a point of view to express, we will listen. We will not always agree, and we will not always say, “We can do it your way rather than ours”, but we will listen to their point of view. If they have a valid argument, with supporting evidence, we will certainly take it into account.

David McLetchie: But not necessarily change.

Alex Neil: Not necessarily. If the supporting evidence does not support a change, we will not make it, but if the supporting evidence persuades us that we need to do something additional or slightly different, the common-sense approach will be to do that.

David McLetchie: We will return to that theoretical discussion at some point.

The Convener: We were told at a recent evidence session that we can expect 6,000 or 7,000 repossessions in Scotland over the coming years, and you just mentioned Mike Dailly’s comments. Why has it taken the Scottish Government so long to start listening on the issue of repossessions?

Alex Neil: We have been listening, and we have taken a lot of action.

The Convener: The representative from Shelter Scotland who attended our previous meeting told us that he would be attending his first working group on repossessions immediately after the meeting—six months after the Government recognised that there would be a problem and allocated £120 million. Why has it taken six months to recognise that there would be a consequential problem with repossessions?

Alex Neil: It has not. We have been taking action on repossessions and the working group will report by the end of April.

As the committee knows, there are currently no totally reliable figures on the number of repossessions in Scotland. The most recent figures produced by the Council of Mortgage Lenders showed that there were 40,000 repossessions last year throughout the UK. We are working on the assumption that about 9 or 10

per cent of those are in Scotland, but we will get hold of the hard and fast figures from April onwards, when the relevant banks and building societies will have to notify local authorities of any home that is repossessed. We will have much more intelligence and robust information to enable us to get a hold on the scale of the problem and where it primarily exists.

11:30

We are doing other things to tackle repossessions. We have already spoken about the £35 million mortgage to rent and mortgage to shared equity programme—which was originally £25 million—that has been set up specifically to help people who face repossession. We have given £1.1 million to the citizens advice bureaux network to ensure that people get advice of the right level and quality, and we have given £40,000 in one tranche and £221,000 in another tranche to Shelter to enable it to improve its support for people who face repossession or other debt and housing problems. In addition, we have provided £3 million for civil legal aid services and extended legal aid provision to civil cases relating to repossession. Doing all that, we have taken a robust approach to repossession.

The Government’s strategy is to prevent repossession whenever possible. Forget the statistics: if someone faces the loss of their home, it has a major impact on not just them but their entire family—and for not just a short but a long period. We are therefore straining every sinew to minimise the number of repossessions that take place in Scotland. I will keep a close eye on that and, once we get the more robust information from April onwards, we will track the position closely so that we are well aware of the on-going problem. We will obviously give serious consideration to any recommendations that come out of the work of the repossessions group, which will report to us at the end of April.

The Convener: So there is still more to do.

Alex Neil: Yes, there is more to do. We are working with the UK Government, as it is doing more as well. Patricia Ferguson referred to the new programme that we hope the UK Government will announce in April. We will continue to work closely with it and will do whatever is necessary within our powers and resources to tackle the situation.

The Convener: We look forward to scrutinising that process, which we hope will reduce the number of repossessions.

Mary Mulligan: Minister, you referred to infrastructure in your opening statement. The housing task force made an important point about

that. Will you say a little more about your plans for infrastructure?

Alex Neil: Yes. When private developers launch a new development, under agreements made under section 75 of the Town and Country Planning (Scotland) Act 1997, they make a substantial contribution to infrastructure and, often, to community facilities. I have already mentioned that one benefit of section 75 agreements is discounted land for affordable housing through housing associations. There are other benefits, such as additional investment in water and sewerage capacity and community facilities, but let us address infrastructure.

House builders and developers face two problems in relation to section 75 agreements. First, they have a real cash-flow problem. In some cases, if they have to fund all the infrastructural development in a section 75 agreement up front, it puts into question a whole development or forces a delay that would not otherwise happen. Secondly, there is the question of their margins. House builders and developers are working to a much tighter margin than they were at this time last year so there is an issue for them in matching the level of investment that they were previously able to make under section 75 agreements.

We are talking to Homes for Scotland and other organisations about those problems, which are clearly acting as a barrier to housing development, and we hope to produce some innovative approaches to tackling them in the next few weeks. Developers will still have to live up to their responsibilities, but we must be realistic and recognise the cash-flow and margin problems that they face. We may have to do something to help them to meet their infrastructural obligations under section 75 agreements and to facilitate the go-ahead of developments.

Mary Mulligan: I understand the problems outlined by the minister, particularly in relation to public sector mixed tenure developments that are caught up in the provision of infrastructure, but I was really looking for an indication of whether he has any early thoughts about how to resolve the problems. For example, will he introduce additional finance to provide the infrastructure, even on the basis that the money would be paid back later?

Alex Neil: We are looking at exactly that kind of proposal. We are evaluating different possible ways of working, and I hope to report back to the Parliament in the next few weeks on some of the innovative approaches that we are taking to the problem.

Bob Doris: Minister, as we were talking about repossessions earlier, it would be remiss of me not to mention something that I have said to your

predecessor, to the cabinet secretary and in the chamber. It relates to the UK-wide practice of sale and rent back, which, as I am sure you are aware, is when a company buys a house from vulnerable homeowners who are struggling to keep their heads above water financially at a rate substantially below the market value with the promise that the owners can rent the property for as long as they like. There is evidence of bad practice—once the deal has been done, rents spiral or the former owners are evicted from the property.

The Office of Fair Trading reports that up to 50,000 UK families are affected by the practice. I know that moves are afoot at a UK level on whether the Financial Services Authority will regulate the practice or even allow it to continue. I have written to the Secretary of State for Scotland, who confirmed the joined-up work between the Scottish and UK Governments to tackle repossessions but said that no decision has yet been taken about FSA regulation.

Will you use your influence to speed up whatever regulation might come in? We need some statistics on the black-market practice of sale and rent back that puts people out of their family home. Will you redouble efforts to work in partnership with the UK Government to get regulation in place? Are there some Scotland-wide statistics on just how bad the practice is?

Alex Neil: The short answer to the first two questions is yes, and we will see whether we can get more information and more reliable statistics, which will be easier from April, when all repossessions have to be notified to the local authority. I am happy to ask local authorities to provide us with information on any sale and rent back schemes that have been part of the problem.

I assure the committee that I will write to the FSA within the next week to urge it again to treat the matter of regulation with urgency because I agree absolutely with Bob Doris. Although there are good sale and rent back schemes run by reputable companies, their image is being damaged by the cowboys. The quicker the FSA acts on the matter the better—I have no hesitation about writing to it to urge urgent action.

The Convener: I return to the point about the constituency postbag. I and others have had correspondence from people who are caught in a house-price trap—delays in construction mean that the value of the new home that they expect to move into has fallen but they have not got any benefit from that fall in value. I do not know whether you have had an opportunity to discuss with the building industry whether there could be standard discounting in such situations or whether builders acknowledge the significant problem for

people who find themselves in such circumstances due to no fault of their own.

Alex Neil: I recognise the problem, which I will raise in my meetings with the construction sector, Homes for Scotland and others. I think that I am right in saying that we offer our mortgage to shared equity scheme even if there is negative equity in the house, whereas the parallel scheme down south does not. Our mortgage to rent scheme includes houses with negative equity too. Although the number of people involved is small, that is an indication of how we are helping people who face that problem.

The Convener: We look forward to hearing about your discussions.

John Wilson: I would like to follow up on that important point. The issue affects not only people who are about to move into a new house but those who cannot sell their existing house because the value has dropped. It relates to the contractual arrangements that are drawn up when people view a property and state their intention to buy. From my postbag, I am finding that some of the house builders are insisting that people go ahead with a deal, even when they cannot manage the trade-up because of a housing chain or cannot afford to buy a house that, for example, was valued at £200,000 when they viewed the plans 18 months prior to construction but is now worth only £150,000. People are being tied into the original valuation, and the issue is how they can break out of such agreements without the building companies threatening them with legal action for recovery of the costs that were agreed prior to the move-in date.

There is another, related issue.

The Convener: Carry on—you are doing well.

John Wilson: House builders are not meeting the completion dates that they set and are leaving people to meet heavy costs for hotel, bed-and-breakfast or other accommodation before they move into their houses. We need the industry to be more realistic about completion dates, and we must ensure that companies do not string people along for up to a year after the proposed entry date. In such circumstances, the purchaser's expenses must be picked up.

Alex Neil: It would be extremely helpful if members could send me examples of cases in which that is happening, so that we have some hard evidence to present to Homes for Scotland and other relevant bodies. I hope that we will then be able to take action to help.

Mary Mulligan: The minister mentioned the fact that it is possible for people who are in negative equity to access the mortgage to rent scheme and the mortgage to shared equity scheme.

Alex Neil: They can access only the mortgage to rent scheme. I am sorry—I should have corrected that.

Mary Mulligan: In reply to my question on the subject, the Cabinet Secretary for Health and Wellbeing indicated that the homeowner and lender would have to enter into some form of arrangement. Is that still the case, or has the position changed?

Shona Stephen (Scottish Government Housing and Regeneration Directorate): The person who wanted to enter the mortgage to rent scheme and the lender would need to reach an agreement on the residual amount owed, which has happened in some cases. People are not excluded from the scheme simply on the basis that they are in negative equity.

Mary Mulligan: But they would need to come to an arrangement with the lender. I would be interested if the minister could provide us with some details—not names and addresses, obviously—of how that has been achieved. People have seen that as a barrier.

Alex Neil: I would be happy to do that.

The Convener: I thank the minister and his team for joining us. We look forward to other enjoyable sessions in the future and a busy month of announcements—of which you have given us a taster.

Alex Neil: Thank you very much, convener.

Subordinate Legislation

Town and Country Planning (General Permitted Development) (Domestic Microgeneration) (Scotland) Amendment Order 2009 (SSI 2009/34)

11:44

The Convener: We move on to agenda item 2, which is consideration of subordinate legislation. Members have seen the order and have not raised any concerns prior to the meeting. A letter from Scottish Renewables has been circulated. Do members have any concerns about, or require clarification of, the order?

I will take silence as a no. The letter raises a number of issues. I am sure that we can come to agreement on the order, but perhaps we can ask the Government to comment on the issues that have been raised.

David McLetchie: My reading of the letter is that there is a concern that the range of permitted developments is not wide enough to encompass all the microtechnologies that might be appropriate. As far as Scottish Renewables is concerned, the omissions are air-source heat pumps and small micro wind turbines and the installation of such devices on dwelling-houses and flats. I can appreciate the standpoint of an industry that wants to develop such technologies, to roll them out and to sell units, but it would be interesting to know why the Government has been reticent about those two technologies and whether it proposes at some stage to introduce further legislation to deal with them.

In particular, I would like to know about the situation as regards the potential for such developments to cause visual or noise intrusion—people in my constituency have certainly complained about the noise generated by a wind turbine and its impact on neighbouring properties. I would also be interested to find out how the planning rules on such matters apply to dwellings in conservation areas, which cover substantial parts of Edinburgh. Are they excluded, or are they still subject to the same regulation?

11:45

The Convener: There are no further comments. David McLetchie has identified a number of areas on which he would appreciate clarification.

David McLetchie: An evidence session would not be necessary. Perhaps we could be provided with a note.

The Convener: Does everyone agree to that suggestion?

Members *indicated agreement.*

The Convener: Do members agree that they do not wish to make any recommendation on the order?

Members *indicated agreement.*

The Convener: The next committee meeting will take place on Wednesday 11 March, when we will hear from Action 4 Equality Scotland and unions. In addition, we will take evidence from Bruce Crawford, the Minister for Parliamentary Business. See you all next week.

Meeting closed at 11:47.

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