

# **LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**

Wednesday 30 September 2009

Session 3

£5.00

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## LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

### 24<sup>th</sup> 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:

Gavin Corbett (Shelter)

Andrew Field (Scottish Federation of Housing Associations)

Nick Fletcher (Chartered Institute of Housing Scotland)

Brian Gegan (Scottish Federation of Housing Associations)

Jim McCormick (Joseph Rowntree Foundation)

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

David McLaren

#### ASSISTANT CLERK

Ian Cowan

#### LOCATION

Committee Room 4



## Scottish Parliament

### Local Government and Communities Committee

*Wednesday 30 September 2009*

[THE CONVENER *opened the meeting at 10:01*]

### Budget Process 2010-11

**The Convener (Duncan McNeil):** Good morning, and welcome to the 24<sup>th</sup> meeting of the Local Government and Communities Committee in 2009. As is normal at this point, I ask committee members and members of the public to turn off all mobile phones and BlackBerrys. Apologies have been received from Alasdair Allan, and Brian Adam is attending as a committee substitute for the Scottish nationalist party. Welcome, Brian.

The first item on the agenda is to take oral evidence on the Scottish Government's draft budget for 2010-11. I welcome our first panel of witnesses: Gavin Corbett is policy manager for Shelter; Brian Gegan is chair of the Scottish Federation of Housing Associations, and Andrew Field is its deputy chief executive; and Nick Fletcher is head of policy and public affairs at the Chartered Institute of Housing Scotland.

I understand that panel members are happy to forgo opening remarks—that is good, as it is in the interests of time. We can proceed quickly to questions.

**David McLetchie (Edinburgh Pentlands) (Con):** Good morning, gentlemen. We are all conscious of the fact that we are meeting in straitened financial circumstances, both in the context of the budget and in consideration for next year and, probably, the budgets that we will have to face thereafter. I have picked up a couple of points from the paper that Mr Corbett and Shelter helpfully supplied, although these questions are germane to the other organisations represented here, too, so you all may wish to comment.

Mr Corbett, your paper tells us that you want there to be “greater housing investment” in the Scottish budget. You state:

“That can be done through bringing forward more money from future years or making tough choices about the relative merits of different expenditure areas.”

Two questions follow from that. First, for how long can we keep on bringing money from future years? Is it an indefinite process, or is there a cut-off point? Why do we not stop with what we have done for this year or the coming year? Secondly, can you give us your perspective on what tough choices we should make to enhance expenditure

on affordable housing at the expense of other items in the Scottish Government's budget?

**Gavin Corbett (Shelter):** I am sure that other colleagues will wish to contribute on this, too.

On the first point, the argument for bringing money forward from, say, 2011-12, or even from years beyond that, lies with the fact that we are still in the midst of a recession in the housing market and the construction industry. Arguably, we can take money from future years now, as the private market will pick up sufficiently by those future years to ensure that we do not lose the construction jobs that we would otherwise lose. That is the argument for bringing money forward from two years hence or a year hence—some of the jobs will be back in the private market by that time.

As you imply, however, the money must be restored at some point. The issue is therefore also about your second question: what best to spend capital money on? The recent report from the Centre for Public Policy for Regions suggests that housing is a relatively good area for capital investment. It has high job intensity—the delivery of the programme that has been accelerated last year and this year has been successful, which has provided jobs in the sector.

With regard to whether there are other capital investment choices, the Cabinet Secretary for Finance and Sustainable Growth was clear when we met him last week that there is a very limited amount of money in the capital budget and that his room for manoeuvre is limited. I have examined the budget at the level of detail that we have been given—which is not always that much—and there are questions to be asked about the relative amounts of capital investment. One example is that the roads programme is much bigger than the housing programme. Is that the right choice? I do not know—I guess that it is a choice for members of the Parliament, but such questions can legitimately be asked.

**Brian Gegan (Scottish Federation of Housing Associations):** I endorse what Gavin Corbett says. Mr McLetchie is right—there is a limited timescale in which money can continue to come forward—and my concern now is more about spending choices. Gavin used the good example of the roads budget, but there is a case for examining all budget heads. As Gavin said, affordable housing is a very good multiplier in terms of its overall impact on the economy.

Our case is that the affordable housing programme can and should be the core element of the Government's economic recovery plan. It will safeguard the capacity of the indigenous construction industry in Scotland and help us to retain those skills. I am old enough to remember

previous recessions in which people would go out of the industry and then come back, but this time around skills are being lost on a much more permanent basis.

One issue in the current recession is that house prices in Scotland have not fallen to the extent that they have in other parts of the United Kingdom. Many people, particularly the young, are still finding access and choice in housing extremely limited, and the danger is that young people—our country's most precious resource—will vote with their feet. The case for investing a greater part of Scotland's national budget in affordable housing is overwhelming.

**Andrew Field (Scottish Federation of Housing Associations):** I will just add a few brief points, as Brian Gegan has already spoken for the SFHA. The relatively small amount of money that was brought forward into the programme for last year and this year has led to a substantial difference in the number of homes that it has been possible to build. It has had a substantial effect on the economics of the building industry and apprenticeships, and it should be considered by Parliament as very worth while.

In the good old days, bringing money forward did not necessarily mean that money would be lost from future years. As Mr McLetchie intimated in his question, that did not tend to happen. The budget proposes—if the Glasgow and Edinburgh investment programmes are included—that 1.6 per cent of the Scottish budget is used for the building of affordable housing. A slight increase in that percentage will get us quite near the number of homes that Professor Bramley suggests that we need in the sector during the next three years. We believe that the need to bring money forward is finite; there is a three-year need for around 10,000 affordable homes for rent.

**Nick Fletcher (Chartered Institute of Housing Scotland):** I echo what Andrew Field says about the benefits that have resulted from bringing forward £120 million into this year and last year. It has driven up the number of affordable houses that have been built, and it has protected jobs in the construction and allied industries. There are sometimes very good reasons for bringing money forward to achieve economic goals and the goal of meeting affordable housing need.

David McLetchie is right that we cannot keep bringing money forward and that there has to be an end to it. We need to make wise choices in bringing money forward, and it is a wise choice to support affordable housing. Because we have brought forward money to this year and protected jobs, the danger is that there is a gap to be backfilled. If we do not backfill the gap, the potential danger is that the construction industry will go into a double depression because the

money will not be there any more to support jobs and fund houses. Although the Scottish Government has done good work in bringing forward money to protect jobs, the danger is that some of that good work might be lost.

It has been proven time and again when we have gone through depressions and the housing industry has fallen away that, when jobs are lost, it takes a long time to reskill people and to get jobs back into the construction industry. We already know that the Scottish Government's target of building 35,000 homes a year by the middle of the next decade will not be met, but the danger is that the more jobs that we lose in the construction industry, the longer it will take to reach the target. The Scottish Government has said clearly that there is a need to build 35,000 homes a year across all tenures by the middle of the next decade. Surely we should consider how to get as much investment as possible into affordable housing now to protect jobs in the construction industry. That will mean that, as we come out of recession, we will continue to build more homes for rent, ownership, low-cost ownership and shared equity, so that we have a range of tenures to meet people's needs in the future.

**David McLetchie:** The picture that your answers paint is that, as a result of the acceleration of £120 million, there are loads of guys with picks and shovels, brickies, sparks and all the rest of it on building sites who would otherwise have been laid off. However, is it not the case that, because of the need to spend the £120 million, a substantial part of it has been spent on acquiring land—which might usefully retain a few lawyers in employment—or on buying houses that the brickies and sparks have already built from house builders' unsold inventories, which has helped them to repair their balance sheets? How much of the £120 million has been spent on starting building projects that are providing continued employment for all those tradesmen?

**Brian Gegan:** I will answer that, as I am the practitioner on the panel—my day job is as the chief executive of a housing association.

There is no doubt that some of the £120 million was spent on acquiring built houses and land, but we must bear in mind that a housing project takes three years from inception to completion. The first year involves identifying the site, buying the land and getting the necessary agreements with the local authority that the proposal meets all the local requirements. The second year is about design and getting the various statutory consents, and the third year is about building the project.

Several projects were making progress because of the previous availability of funding, but the £120 million allowed us to accelerate elements of that three-year programme. My association has more

projects currently on site than we have had in the past five years, and many housing associations are in the same situation.

In response to David McLetchie's question, I suggest that we are now receiving the benefit of that accelerated funding in actual construction on site. We will also get the benefit of that next year. It is not an accurate reflection of what has happened to suggest that the money has been used primarily to acquire land and built units. There is more activity on site and, as Nick Fletcher said, that activity is sustaining the construction industry at a relatively optimum level. We are nowhere near where we were three or four years ago, but we must retain that base level of input. From the evidence that I see as I go out and meet colleagues, there is no doubt in my mind that, in the past six to nine months, there has been a lot of activity on site that perhaps would not have happened otherwise. That will certainly continue next year.

**David McLetchie:** On the land banking that has been made possible by the acceleration of the spend into land acquisition, are there clear programmes for building on that land in the three-year period that you describe? Alternatively, are we in a situation in which although we have accelerated spending to enable housing associations to build up their land banks, if there is no follow through, that land might lie fallow and remain the same undeveloped land that it was before it was acquired?

10:15

**Brian Gegan:** Housing associations the length and breadth of Scotland have to sit down with Scottish Government officials, examine the timing of these programmes and not only discuss with the Government the availability of subsidy but plan for our own treasury and borrowing from banks and financial institutions. We have been able to acquire some land and start to think about how we might move forward.

At the moment, housing associations are currently front funding £90 million of projects just to get them on site. I am not sure how much further that funding can go—I do not think that it can go an awful lot further—but the housing association sector has the capacity to continue to front fund. We also have mechanisms for engaging with the private sector such as turnkey arrangements that allow properties to be built and then to be paid for in phases on completion.

In short, we have mechanisms to ensure that on-site activity continues, the two principal ones being front funding and arrangements with developer builders for forms of payment other than the old monthly certificate.

**The Convener:** When you referred to a double depression, Mr Fletcher, were you talking about what Mr Gegan was alluding to when he said that at the moment the accelerated funding is maintaining jobs in the construction industry and that there will be a dip if it does not continue? I take it that that will not happen next year because the money has been spent and people are on site. When do you expect the impact of the second dip to hit the industry?

**Nick Fletcher:** It is difficult to say but, as Brian Gegan said, the nature of the building industry is such that a project from inception to completion can take three years. We might start to see more jobs being lost one and a half to two years down the line, but if construction firms expect that no more money will come forward they will look at whether they can sustain the current number of jobs and might well decide to shed some now.

The accelerated funding, which has been welcomed, has protected some jobs, although it must be said that the industry has still lost a significant number. The danger is that the jobs cannot be protected for very much longer, so some of the good work that has been done in that respect will be lost. The legacy will be the increased number of houses that will have been built. Indeed, the figures for the end of last year and the beginning of this year for new starts in affordable housing by housing associations and local authorities show a significant increase. Organisations have not just been banking land; buildings have been going up on site and there have been new starts. However, that activity will start to tail off if we cannot find any more investment for the affordable housing budget.

**Mary Mulligan (Linlithgow) (Lab):** You touched on this subject in your answers to David McLetchie, but can you tell us the likely impact of a 34 per cent decrease in the funding for the affordable housing investment programme in 2010-11?

**Brian Gegan:** I have to say that, in light of the announcement of the draft budget, we recognise that the three-year affordable housing programme, which was announced a couple of years ago, was of a finite length and that, as Nick Fletcher pointed out, the acceleration of the £120 million means a decrease in funding next year. That places extra pressure on the mechanisms that I outlined to David McLetchie, and I guess that if we are to sustain the completion levels that Nick mentioned we will have to examine those arrangements and housing associations' front-funding capacity to keep on-site construction activity going. Less money unquestionably means fewer completions.

As Andrew Field said, our case for increasing affordable housing's share of the national budget is that it not only sustains jobs but provides the

vehicle for on-site training as houses are built—which I meant to say in response to Mr McLetchie. As that opportunity decreases, the industry's ability to sustain itself will be severely inhibited.

There is a huge challenge for us to find new ways of providing affordable housing. That means more collaborative working with local authorities. We are in danger of creating competition between housing associations and local authorities, but we must move towards collaborative working, use the resources, skills and expertise of both sectors to take things forward, and include the private sector. That is a challenge but, at the end of the day, less money will mean fewer houses.

**Gavin Corbett:** In a budget we talk about the financial year, which starts on 1 April and stops on 31 March, but the world operates a bit differently from that. There will not be an immediate fall-off on 1 April—that demonstrates the artificiality of budgets—but, over time, we will lose some of the homes that would have been built if the budget had been brought up to the level that could have been the case for this year.

The Government is right to say that it planned to spend £1.65 billion over three years, that the spending remains at £1.65 billion and that the draft budget for next year is a result of changing the years in which that money was spent. However, nobody round this table thought that £1.65 billion was enough in the first place. It was not enough to build the 10,000 homes a year for which we have argued for all sorts of reasons to do with the outstanding housing needs in Scotland, nor would it have become enough simply by changing the year in which it was spent. We will continue to say that more money needs to be spent on housing this year and next to meet that need target.

We are missing opportunities. As I mentioned in my first answer, housing is not unique in capital expenditure but it is an extremely good way of delivering quickly because it involves lots of small units and the money is not tied up in huge capital projects. Land is cheaper now, and what better time is there to buy land for affordable homes than when it is cheaper, instead of waiting until the private market picks up again and we have to compete again with developers with potentially deeper pockets? We could be taking that opportunity.

Everyone recognises that the budgets are tight, but there is a special appeal for housing to be the beneficiary during this period and for its budget to be sustained at this year's levels for at least next year and accelerated in future years to meet the outstanding needs.

**Nick Fletcher:** Mary Mulligan asked about the consequences of the gap in funding that we face. We have talked about the impact on the

construction industry, but we also have to consider the impact on meeting housing needs throughout Scotland. Joint work by the CIHS, Shelter, the SFHA and other organisations on the 2007 spending review identified the need for at least 10,000 affordable homes to be built in Scotland every year to meet current need. Shelter did some more work on that recently, and we still stand by the figure of 10,000 houses. Despite the economic changes, it is still a viable figure to aim for.

The Scottish Government has put more money into the current build programmes. The £1.65 billion is record investment in affordable housing, but it is not enough to deliver 10,000 homes a year. If the amount of money that comes in falls away and a gap appears, fewer homes will be built in the next few years. Therefore, it will be a bit more challenging to meet housing need and achieve the 2012 target of every homeless household having the right to a house as well as meeting the needs of others on the housing waiting lists. The lists have been getting longer, as more people are applying for housing.

If we are not able to put more money into the affordable housing budget, we will find it increasingly difficult to meet the needs of groups of people whose needs we are already not good at meeting. Those groups tend to be low-income families that have neither the needs profile to access the social rented sector—local authority or housing association houses—nor the income to access the owner-occupied market. Even though prices have come down slightly in that market, access to mortgages has become much more difficult. One hundred per cent mortgages are not available at the moment, and we do not know whether they are likely ever to become available again.

There is a decile of people whose housing needs are not being met. If there is a drop in the amount of money for affordable housing, how will we meet their future housing needs? That issue must be addressed.

**Mary Mulligan:** I understand why many witnesses focused on jobs, but Mr Fletcher's point about housing supply is equally important. Given levels of spending, will we meet the 2012 homelessness target?

**Andrew Field:** To focus merely on supply is not necessarily to take the right approach. Of course supply will be critical if we are to meet the 2012 target, but other factors will be just as critical, including advice services, which are not capital funded. Housing associations often get into such activities as part of their wider role. Reformed use of the private sector will also be critical.

Supply is just one component in the attempt to meet the 2012 target, but it is important. Some



10,000 affordable homes per year are needed, as the Bramley research found. The bringing forward of money for housing into this year showed us and Homes for Scotland—the body that is equivalent to the SFHA in the private developer sector—that such an approach brings a quick result, because we can deliver homes quickly. The SFHA and Homes for Scotland think that the housing association and private sectors worked together quickly to spend the bring-forward money. It has been acknowledged that we got things moving without delay, and there was also a geographical spread across Scotland—building was not targeted at a particular part of the country; it was countrywide.

Of course, if there is a much smaller pot of money and 1,000 or 2,000 fewer homes for rent are built, we will not increase supply as much as we would have done otherwise. However, to consider in isolation capital expenditure on house building gives a one-sided picture. Numerous pieces of work are going on that might create a changing scenario on the cost of building houses. For example, procurement and housing development are being considered for reform, and new loan mechanisms are being explored. We regularly talk to the Convention of Scottish Local Authorities about local authority and housing association synergies. If the council house building budget remains as it is in the coming year, the relationship between local authorities and housing associations—which did not really exist in the past because it did not have to—is bound to develop.

A number of aspects can help us to meet the 2012 target, but you would not expect us to tell the committee that current capital expenditure is enough to build 10,000 homes a year, because it is not enough.

**Gavin Corbett:** Andrew Field is right to point out that there are a number of ways in which the 2012 target can be met. Two points are important. First, the target is a statutory commitment and is not simply aspirational, like the aspiration to build 35,000 homes a year, which Nick Fletcher mentioned. Secondly, we are 83 per cent of the way towards meeting the target. Almost half of all local authorities are on or ahead of target. We are making good progress, although that is not universally the case and some areas in Scotland are struggling.

If we do not increase investment in affordable homes and ensure that lets flow from that investment, the 2012 target will not be unmeetable but it will have to be met by placing significantly more people in temporary accommodation. That would cost around £70 million a year in Scotland, which would be wasted money. If we can spend money on providing new lets instead of starting people off in temporary accommodation, we can

achieve all the multiplier effects that other witnesses mentioned and enhance families' quality of life. The argument is not whether we can meet the target or not; it is about the negative consequences of meeting it by using lots of temporary accommodation.

**Mary Mulligan:** As witnesses said, in 2007 the plan for housing spend was £1.6 billion. That will be delivered, despite the changes in the budget profile since then. Does that demonstrate a commitment to housing?

10:30

**Gavin Corbett:** As I said earlier, none of us said back in 2007 that £1.65 billion was enough and none of us would say that now. That said, it is reasonable to reflect on the difficult budgetary circumstances, and one could argue that for the Government to have maintained the budget at £1.65 billion is a victory of sorts. The present circumstances are different from those of 2007—private outputs have slumped dramatically—and the strong argument can therefore be made that the affordable housing budget for 2010-11 should be significantly enhanced. I think that we all would make that case.

**Nick Fletcher:** I echo that. We are definitely in different times from those of 2007, although even at that time we said that £1.65 billion was not enough investment in affordable housing. However, we recognise the Scottish Government's strong commitment to housing in bringing forward investment.

There were two clear reasons for bringing forward the money, as Nicola Sturgeon was clear in setting out. First, the Government wanted to help to protect the building industry, including jobs, and to keep the economy going. Secondly, it could procure more affordable housing for less money: falling land prices and companies folding meant that builders were looking for opportunities. The situation has not changed, and we have not yet moved out of recession. We may be moving out of recession soon—indeed, some indicators suggest that we are doing so—but it will take a while to do that. The reasons for bringing forward the money have not changed.

The Scottish Government's investment of £1.65 billion was a good commitment but, as Gavin Corbett said, times have changed with the change in economic climate. The strong argument can therefore be made that we need to support the building industry and, in doing that, get good value for money. We have talked about value-for-money issues. It would be a shame if we could not continue to take advantage of this window of opportunity to get more value for money from the public investment in housing.

**Brian Gegan:** I return to the 2012 homelessness target and how to achieve it. My concern is for young people who have left school and are in university, college or a job. As I said, house prices in Scotland have not fallen to the same extent as they have fallen elsewhere, and we all know about the difficulties in getting a mortgage. My fear is that we lose our most precious resource—our young people. If people cannot create a household—a single person household or whatever—they will vote with their feet. If that happens, Scotland will be the poorer for it.

We need investment in housing, which is a basic human need. Like my colleagues, I applauded the money that was brought forward. It was a good idea, and we all had been pressing for it. We now need a continuation of that commitment—a continuation of that level of spend and completion. That is the way to offer not only young people but all sectors of society availability and choice in housing. The simple fact is that we have not had that for the past 10 to 15 years. At the end of the day, a place of residence is a vital human need. If people do not have access to housing, the whole social fabric is put at risk.

**Bob Doris (Glasgow) (SNP):** Good morning, gentlemen. As you have made it clear in your evidence, you are asking for more money for housing. You should make no apologies for coming to the committee and doing so—that is what you do; it is your *raison d'être*.

Clearly, results can be achieved by bringing forward capital expenditure and reprofiling budgets. We are looking at record figures of approvals and completions in the current year for that very reason. From the SFHA evidence, we can expect those record levels to be maintained in the coming year. Obviously, the choice for the Government in sustaining that increased level of investment is whether to take it from other parts of the capital budget or to bring forward capital expenditure.

Clearly, the Government has said that it is seeking to bring forward capital expenditure to sustain recovery. We will have to wait and see whether that is successful. Do panel members support the Government's attempt to bring forward capital expenditure in that way?

**Gavin Corbett:** Yes. Obviously, it depends on the chancellor's pre-budget report and the extent to which capital acceleration in the UK Treasury's budget will result in Barnett consequential for Scotland. We would all say that that is fine, but let us not put all our eggs in that basket or leave ourselves with that as the only choice. We also need to consider the choices that we make between capital expenditure areas, and that

remains the case even if we get the accelerated money.

**Brian Gegan:** I go along with that. There are undoubtedly tough decisions to be made. I support bringing forward the money if it sustains the levels of investment and completion that there have been. However, as we said earlier in response to Mr McLetchie, that cannot go on *ad infinitum*. We need to consider different ways of delivering. We need to ensure the best possible outcome from every public pound that is spent.

Many mechanisms are now in train and a number of working groups have been set up with the Government. Bringing forward money in that way is but one mechanism to sustain investment, and we must also look to other sources. It boils down to hard choices about where the money comes from. It will be the view of all of us on the panel that the housing share of the national budget needs to increase.

**Bob Doris:** I would not expect any of you to say any different, or you would not be doing your jobs properly. It is good that you have put it on the record that you support the bringing forward of capital expenditure from future years. You have also said that it cannot go on indefinitely. Like Mr McLetchie, I wish to ask a question linked to the Cabinet Secretary for Finance and Sustainable Growth's statement that he would like to continue to bring funding forward from future years, perhaps for one more year, until the private sector has moved out of recession and there is growth in the sector. Will one additional year be enough for that to happen? When do you think that the private sector will pick up?

**Andrew Field:** I have spoken to colleagues in Homes for Scotland about private sector indicators. They tend to say that things are potentially near—its members do not quite see green shoots, but they see the brown earth moving very slightly. I would not wish to put a timeframe on that, but I have spoken privately to people in Homes for Scotland, and they talk about a couple of years. They do not expect that things will get back to the levels that they were at before, but they believe that things should be much healthier in a couple of years.

Perhaps, in that context, we should be thinking about the AHIP. The affordable housing investment programme is done in three-year chunks. I strongly hope that we get to a good place over the next three years.

I stress my earlier point: in the next three years, there will be fundamental changes to the way in which housing is developed in the affordable sector in this country, and we are working on that. Procurement is going to occur in fundamentally different ways in our sectors, and that is also being

worked on. Fundamentally different loan mechanisms will probably be developed, and the whole way in which housing is funded will be different, too. The housing association grant regime is 30 years old, and it will be under active consideration—it must be looked at.

I stress this point: the synergies between local authorities and housing associations must be developed. We cannot have a return to an old-style municipalism if council house building is on the agenda.

We speak regularly with representatives of councils. Most of those to whom I have spoken talk about housing associations getting the building done for them. They know that councils do not have the skills any more, and that housing associations can turn things round quickly. That might mean having a different set of arrangements between housing associations and local councils, and it might mean laws being changed to allow for synergies in delivery at the front end. I think that all that stuff will happen quite quickly over the next three years—in a sense, it has to.

As a trade body, we are here to say that we need a greater proportion of the national budget to be dedicated to housing in the short to mid-term. We are absolutely not luddites, and we know that we are in an age of austerity. That is why the four particular things that I have just highlighted are extremely important to us. We realise and accept that the public purse is going to get smaller, not bigger. However, what we are saying to you is that, for the sake of jobs, housing and the economy—in other words, the basic things that people need—you will have to spend a little more of the national budget on housing in the short to medium term.

**Brian Gegan:** On whether another year of accelerated funding would be enough, I encourage MSPs to do what we do when we plan out housing supply and think in three-year timescales.

As for recovery in the private market, I do not think that there is a general trend in that respect. In preparing for this meeting, I spoke to a number of people in the private sector and there is no doubt that activity has increased at the top end of the market among second, third and fourth-time buyers who usually have a deposit and for whom the experience of mortgage borrowing is a little bit different. However, the first-time-buyer market is still very flat. Throughout the country, a plethora of one and two-bedroom flats is simply not moving and the Council of Mortgage Lenders representative on the housing supply task force has made it clear that lending, particularly for first-time buyers, will continue to be tight and that banking behaviours are not going to change markedly. I think that it will be three years before we start to see anything like a return to the level of

activity that we saw prior to the financial crisis and the credit crunch.

As I say, MSPs need to think in three-year timescales, because to do anything else and, say, intervene will simply upset the development process that we have discussed. We need a rolling programme in that respect. If funding is to be accelerated in year 1, I counsel members to think about the impact on years 2 and 3.

**Nick Fletcher:** We must realise that we are moving into much more difficult times, with public funding constraints continuing for the foreseeable future and at least for the next four, five or six years. Although I accept Brian Gegan's point that we really need to aim for three-year funding, I feel that we should accept whatever crumbs are on the table. The fact is that an extra year's accelerated funding would make a difference just now.

The CIHS, the SFHA and the Scottish Government are already trying to identify alternative sources of funding to plug any future gaps in public spending. For example, at the weekend, the Minister for Housing and Communities, Alex Neil, announced £50 million of European Investment Bank funding to help housing associations to develop. We are all starting to consider new methods of procurement that might result in efficiency savings and alternative sources of finance, including the use of pension funds as well as the banks to put more money into the sector and to help to build more affordable housing.

However, that is all in the future. As these alternatives will not come on stream within the next year or 18 months, we need some backfilling to give us more time to identify other sources of funding that might make the sector less reliant on public funding and more reliant on private sector finance and might allow it to deliver houses with less of a need for public subsidy. There are moves afoot in that respect, but it will take time to get there.

**Bob Doris:** That is very helpful. Indeed, Mr Gegan's very interesting comment about thinking in three-year terms when accelerating capital expenditure and considering the impact not just on year 1 but in the medium to long term might be worth raising with the minister.

My final question before I hand over to my colleagues is about what we should do with that money. Mr McLetchie has already asked about how much off-the-shelf housing we should buy, how much housing we should develop and how much land we should bank. I want to focus on that third aspect. When the private sector eventually picks up, will the land that has been banked prove important in deals that are cut with private developers on planning gain? Could such moves

cross-subsidise future developments at a time when the public purse is getting tighter and tighter?

10:45

**Brian Gegan:** You are right—it is unquestionably the case that associations and developers are seeking to acquire land now. The downturn in the private sector has meant that section 75 agreements for local authorities have not produced the same numbers of affordable homes that were built previously, because private developers have simply not been going on site.

That situation is starting to ease slightly now, through the turnkey operations and the front funding that I talked about earlier in response to Mary Mulligan's question. However, there is no doubt that land banking is an important tool, and more important than buying completed units. We certainly encouraged our members to think about it because of the three-year timescale: land banking enables us, when the project eventually goes on site, to telescope the three years into two. It is about getting an impact more quickly, and it is part of that development process.

As I said in response to the previous question, there is movement in certain parts of the private sector, which means that there is a window of opportunity to land bank. With regard to investment planning, we need to think in a much more focused way than we have in the past, rather than simply saying that we are bringing money forward. We must focus more on what we use the money for, bearing in mind the three-year rolling timescale.

**The Convener:** Why are we only now considering efficiencies, more imaginative use of the budget and more ways to work together? What were you doing for the past 10 years while the money was flowing?

**Nick Fletcher:** Efficiencies have always been on the agenda, but they have come to the fore in the current climate. Local authorities and housing associations have always sought ways to deliver efficiencies, but the efficiencies agenda is not just a feature of the housing sector and it now covers all sectors. There has been a more intense focus on the drive for efficiencies in the health sector and in the Scottish Government itself. It has become a much more important part of the way things are done. We are engaging more and more in taking that agenda forward. It has always been there, but it is now clear that we need to drive it forward even harder and find new ways in which we can deliver efficiencies.

The issue concerns not only efficiencies but the need to consider alternative sources of finance. One of the challenges that we still face is that

lending from banks and building societies is still not as good as it was. It is getting better—yesterday or the day before, the London interbank offered rate was the lowest it has been for some time—but the lending from banks is not reflecting that. There is still a difficulty in accessing private finance so, in order to drive forward housing programmes, we will need to find alternative sources of private finance, or other public funding sources such as the EIB. New initiatives that were not on the agenda before are beginning to come forward. Efficiencies have been on the agenda, but the need to seek alternative sources of funding has not.

**The Convener:** You say that efficiencies were on the agenda, but people were lobbying against those efficiencies. When the Government brought forward a strategy that sought to improve procurement and to get better value for the public pound, people from various organisations—some of which are represented in the room now—were lobbying the Parliament to say, "We cannot do that, we are not moving to an English model and we will not reduce quality." Meanwhile, a crisis was looming.

I express that frustration because, week after week, we hear the voluntary sector saying, "Local government should give us more money," local government saying, "The Scottish Government should give us more money," and the Scottish Government saying—we will probably hear this in the next few weeks; we have heard some of it today—"The UK Parliament should give us more money." I am trying to get at some of the issues and the discussions that are taking place with the cabinet secretary to ensure that we have more houses—not necessarily jobs—for people who are not in houses.

**Brian Gegan:** You asked what was happening in the past 10 years. As Gavin Corbett said, there has been a different set of circumstances during the past 10 years. You are right. I have never known so much investment to be available for housing associations in particular as well as for local authorities as there was during the period from around 2002-03 to 2007. What was constraining housing supply at that time—the nub of the issue—was not the availability of Government subsidy or the availability of private finance but the availability of land.

**The Convener:** Yes, I remember.

**Brian Gegan:** What was constraining housing supply was the cost of land, the delays that were inherent in the planning system in bringing land forward, and the reluctance of the private sector to make land available for affordable housing when returns for private housing were so great.

That is why organisations such as the Highland Housing Alliance were set up. That was an efficiency measure to try to create a mechanism to make land available from the private and local authority sectors. The money was there, and you are absolutely right to ask about efficiencies, but our efficiencies agenda was going in a different direction, because the issue was availability of land. We had land values of £1.5 million per acre quoted for Edinburgh. Housing associations and local authorities could not make projects stack up. However, as Gavin Corbett said, circumstances have changed and the focus is now in a different direction. Land is available, so that is not the issue now—we can get access to land.

**The Convener:** The money that the Scottish Government is making available has not changed much at all—£1.6 billion is still there. Your starting point is that that was never enough, but that is by the by. The Scottish Government has maintained the funding. I want to hear about what work has taken place to ensure that we get as many houses as possible with that money. Mr Corbett alluded to that when he talked about how we spend the budget and how we can get more out of it. It would be in all our interests if we extracted the best value for every penny—never mind pound—of the £1.6 billion. Collectively, we would then be in a better position to say to the Scottish Government that we had done our best and maximised the budget but that we needed more. What efficiencies can we drive out of the budget of £1.6 billion? Given the expectation that not a lot of money is available to the Scottish Government, we will have to do that. How can we get more out of what we have got?

**Andrew Field:** The SFHA, as a trade organisation, acknowledges that public spending is shrinking. The convener talks about an efficiency agenda, but we believe that we should also talk about an effectiveness agenda. That agenda is not a million miles away. It is absolutely correct that we should talk about the effective delivery of the budget. Several approaches are under development and I would like them to be reinforced.

We are considering development reform. Historically, development has been the soft underbelly of the housing association sector. Development in the sector involves the complicated housing association grant regime that was developed by the old Communities Scotland. A complicated formula is used to determine how much public subsidy goes into house building per unit. I am not sophisticated enough to understand that, although I know that my chairman is. That regime is being considered as we speak. Three working groups involving the associations and the Government are examining how the system can be reformed so that we can do exactly what the convener calls for and what we believe is needed,

which is to maximise delivery for the least amount of money.

Alongside that, we are considering procurement, which is critical. We must consider whether we procure in the best way the core things that are needed to build houses, such as wood and stone, and the backroom services for people in a local area. That needs to involve not only individual housing associations, or groups of them, but local authorities. On any estate in the country, outwith the areas in which local authorities have transferred their housing stock, there tends to be four landlords: the council, the housing association, the private renters and the owners or the people who have bought their council houses. We need synergies in how we deliver services in such areas.

We are examining new loan mechanisms. At the weekend, an announcement was made about access to European Investment Bank funding through the Housing Finance Corporation, which is the first time that the corporation has been used in Scotland. Housing associations that use the body get a better rate for their money—the fee margins are 1 per cent less than those that the traditional banks charge. That is being considered.

The convener might say that all that work is 10 years too late—we could have that debate—but an awful lot of work is now beginning to take shape on effectiveness and efficiency. However, if we accept that to meet people's housing needs the country will need around 10,000 new homes per year, we must also accept that we will probably have to increase the proportion of the national spend that is allocated to housing.

**The Convener:** We have heard similar evidence from other witnesses, and I wonder why we have to choke the funding before we get all that talk about efficiencies and working groups. When will those groups report? When will actions flow from their work? Will the pressure still be on? Will people say that everything is okay again because the crisis has passed?

**Andrew Field:** I do not think so. In particular, the work of the three groups that are considering development reform is time limited. Local authorities, housing associations and senior civil servants are involved. If you call us back to the committee this time next year, you will probably find that a new approach is in place. Regardless of what public expenditure is provided for in the budget, the groups will report back.

Work on new loan mechanisms is being undertaken and we will shortly sit down with civil servants and housing association finance directors from across Scotland to begin to consider the new housing association grant and what new model of public subsidy we can use for housing. We have

carried out a scoping study on that with the University of Glasgow. Again, there will be a time-limited piece of work, which will aim to set up a new system. The work will not disappear.

**Gavin Corbett:** I am not as close to the nuts and bolts of development as my colleagues in the SFHA are, but I think that it would be wrong to give the impression that efficiencies have sprung up just as a result of constraints on public expenditure. I might almost put it the other way round and say that it is precisely because housing is a relatively efficient method of capital investment that we should invest more in it.

We should invest in success. The programme that was directed through the Scottish Government's budget this year generated £340 million in additional borrowing, through local authority prudential borrowing and housing association borrowing. That seems to be much greater leverage than we get in other capital programmes in the public sector. That is precisely why housing investment represents a good return on public money and why there should be more investment, rather than displacement by other forms of funding.

**The Convener:** I am more interested in what you said in your submission than in the answer that you just gave, in which you suggested that housing has always been efficient. The Scottish Government said that the delivery of housing is not efficient, in the context of procurement, the number of houses that have been funded and the money that we are putting in—that was the Government's judgment on all its work. I accept the philosophical arguments about the investment being good for people, but I will ask you the same question that I will ask the cabinet secretary: where can we find the money to deliver more houses for more people? In your submission you set out ideas about how we might use money that is already in the budget differently. Will you expand on that?

**Gavin Corbett:** Andrew Field gave some examples and I bow to the SFHA's knowledge of the details on procurement and arranging loan finance.

I was trying to make the point that the efficiency of all capital programmes, whether they are in education, health or transport, can be questioned and that I am willing to stick my neck out and say that housing comes out quite well when we consider the extra finance that the programme generates, and how well the programmes that were set out at the start of the year delivered and how much additional value they brought.

I think that all the witnesses are saying that we are proud of what we have done but we can do more. Andrew Field talked about work that is going

on. However, it would be a mistake to say that housing is inefficient and should benefit less from public sector largesse. The argument does not stack up when we consider the public sector as a whole.

11:00

**Brian Gegan:** I support what Gavin Corbett said. Andrew Field outlined a number of measures that we have been taking. I have been in the housing association sector for 30 years and I remember suggesting to the Government in year 2 that the HAG system needed to be overhauled, simplified and made more efficient.

I dispute that housing was inefficient over the past two years. It is not as efficient as it might be, but it has still proved to be a success story. What we have done with the accelerated funding proves that housing can deliver throughout Scotland and increase its completion rates fairly quickly with a good understanding of the process. Because of the dialogue that we have had with the Government and the civil servants over the past two or three years, there is a much better understanding of the development process and the three-year period for taking it forward.

We are considering better ways of borrowing privately. It is difficult to borrow money at the moment and to get the banks and building societies to give us consistent rates that will make projects feasible. I agree that there are efficiencies to be gained, but that does not necessarily imply that the previous system was wholly inefficient.

**The Convener:** I will give the four of you one last shot at it. I ask each of you to give me one idea—just one—for how to get more houses out of the existing budget.

**Nick Fletcher:** On efficiencies—

**The Convener:** It could be efficiencies, changing the scheme or changing the focus from one programme to another. Whatever.

**Nick Fletcher:** We have to remember that £30,000 to £40,000 of every £100,000 that goes into affordable housing is levered in from the private sector. That is good efficiency in the affordable housing sector, but could we make it 50 per cent public funding and 50 per cent private? That would require us to consider closely how local authorities and housing associations work together and share their funding. Many Scottish local authorities can access prudential borrowing. Could we stack that up with some of the public funding that comes into housing associations and work in partnership?

One challenge that we have had over the past few years is that a wedge has been driven between local authorities and housing

associations—competition between them has not been beneficial to the sector. We need to break down those barriers and get local authorities and housing associations working much more closely together to identify locally what housing is needed and which of them can best procure the necessary sites.

We also ask whether there is a role for the Scottish Futures Trust in land assembly and land procurement. Could it access land for the sector? Could that deliver efficiencies that would help the sector?

**Gavin Corbett:** Nick Fletcher touched on land, which is the most volatile part of the equation. When we talk about changing house prices, we are talking about changing land values. Assembling and creating service sites and sharing public sector sources of land must be the single biggest way of helping to ensure that we get more homes for public money. That may be a long-term agenda—it may involve considering different landholding mechanisms, procurement mechanisms or ways of valuing land—but it must be the single biggest hit that we can get.

**Brian Gegan:** I will give you two ideas, not one, convener.

**The Convener:** Thank you very much. Two would be welcome.

**Brian Gegan:** The first idea is to streamline the HAG system and take the bureaucracy out of it, which is in train. If we do that, there will be no point in housing associations and, indeed, local authorities employing technical consultants to have the schemes pored over again by another set of technical consultants. Let us streamline the system, cut down the bureaucracy in it and move the schemes forward. If they have local authority building warrants, planning permission and road construction consent, let us move on.

The second idea is to create a rolling infrastructure fund, as we discussed in the housing supply task force. The availability of funding for infrastructure still imposes constraints on housing supply. We need to set up a rolling infrastructure fund that housing associations and the private sector can dip into and pay back as sales take place or rental income comes in. Even if we have the land and funding, the development cannot take place if we do not have infrastructure.

**Andrew Field:** I will also give you two ideas. First, you should make affordable housing a compulsory part of local authority planning processes. Secondly, you should facilitate the speed with which housing associations can buy off-the-shelf developments from private developers. That is not merely about the chain of bureaucracy that we need to go through, but about size and standards. Free us up.

**The Convener:** Can that all be done under the existing budget?

**Andrew Field:** Yes.

**Jim Tolson (Dunfermline West) (LD):** Good morning, gentlemen. We are focusing on a particular aspect of the affordable housing budget. As you are aware, the Scottish Government has suggested that it will build 21,500 affordable houses over the period 2008-11 from within the fixed budget that it has provided. No extra money will come into the budget over that period. This morning, the three of you have indicated that your target over the same period is to build 30,000 affordable houses. I have long agreed on the record that the 30,000 target is right, not just to meet our 2012 homelessness targets, but to meet all the requirements of what I term a crisis in the availability of affordable housing throughout Scotland. The 30,000 target is a crucial aspiration that all of us should strive towards. I would like to put more pressure on the Government now and in the future to help us to do that.

The financial targets that have been set by the organisations that you represent, especially Shelter and the SFHA, are of key importance. Shelter has suggested that investment of £600 million is required in the period 2008-11, and the SFHA has suggested that more like £780 million is required to meet the 30,000 target. Are we comparing apples with apples or apples with oranges? How robust are the figures? Given that land prices are now lower, could we increase the number of units that we get within the budgets and the three-year timescale that have been set? If so, how far will that take us towards making up the difference between what the Government perceives we can build between 2008 and 2011 and what you perceive we can build in that period?

**Gavin Corbett:** The difference between Shelter's figure and that of the SFHA is accounted for by the fact that Shelter's programme includes an assumption about council housing. Quite reasonably, the SFHA, which represents housing associations, assumed that the programme will be a housing association programme. There are big questions about whether the council housing programme, which is still new, can deliver anything like the 1,300 homes that have been suggested—it is not yet at that level. It seems to be accepted that any future programmes will include an element of new council housing, but the proportion that it will contribute remains uncertain. Although the SFHA's and Shelter's figures differ, they are similar in order of magnitude.

Although £600 million sounds a lot, the Cabinet Secretary for Finance and Sustainable Growth has spoken about the possibility of £3 billion of additional capital investment, of which Scotland would get just over £300 million in Barnett

consequential, being accelerated from the pre-budget report. We are talking about a similar order of magnitude. There is quite a big difference between £600 million and £300 million, but we are dealing with significant amounts of money. It is still plausible to talk about that level of funding.

**Andrew Field:** Gavin Corbett says that he is talking about a lot of money; the SFHA was talking about an even larger amount of money; I want to clarify what we meant by our figure. This morning I wanted to present the committee with a picture of the current situation. Our figure is for building by housing associations, at the current cost. In the evidence that Brian Gegan and I have given, we have indicated that we know that the position will not remain static—we want to drive down the figure. The public subsidy for a house is not designed to provide profit to a housing association; it is not meant to create a surplus, but to provide the subsidy that is needed. I have outlined the current cost. Via procurement, development reform, new loan mechanisms and, I hope, new and developing relationships between councils and housing associations, the figure would drop.

**Jim Tolson:** So the figure will drop rather than—

**Andrew Field:** I hope that it would drop.

**Jim Tolson:** Given the lower land prices to which I referred, would not it be better to keep the figure the same and to produce more units in order to make up the shortfall between the Government's target and your target during the three-year period 2008-11?

**Andrew Field:** Absolutely.

**Brian Adam (Aberdeen North) (SNP):** We have heard about mechanisms and collaborations with local authorities and even with the private sector. Is it a fair comment to say that for a subsidy of about £25,000 per unit, councils are delivering rather more for the public pound than housing associations are delivering at £78,000 a unit?

If we are to strike a balance between the different types of affordable housing tenures, how can we get more units for the same kind of money? The convener mentioned that. As the figures from Shelter show, the bulk of the money goes to housing associations at £78,000 a unit. If the figure for council housing is £25,000 a unit—and if the prudential borrowing regime is capable of delivering it—we could get three times more council house units than housing association units. If we relied more on the shared equity model, we could appeal more to the aspirational young people to whom Mr Gegan referred. Surely that model also offers more units for the same amount of money.

**Andrew Field:** It would be a mistake for Parliament to think that a council can build a house more cheaply than a housing association can. The cost is the same. When I talk to my COSLA colleagues, I hear that the cost for a housing association to build a house in Aberdeen is the same as that for Aberdeen City Council, should it wish to do so.

We have never shown an unwelcome attitude to council house moneys. It is good that housing forms a component part of the single outcome agreements that the Government reached with the local authorities. The £25,000 subsidy sounds attractive, but the cost in the end is roughly the same as that for a housing association. Where do councils make up the cost? They do that via their housing revenue accounts or through distribution of land. That is all good, but it all costs. It costs the same for a council to build a house as it does for a housing association.

**Brian Adam:** Yes, but it does not cost the central Government, with its limited budget, the same; the cost to it of a council house is a third of the cost to it of a housing association house. Given that there is no further right to buy for new build, councils are willing to use their housing revenue accounts and borrowing powers under prudential borrowing. Housing associations also have the capacity to fund through rent. I struggle to understand your argument that the capacity to use housing revenue accounts offers councils an advantage—after all, the arrangements that you make for your tenants are exactly the same as those which councils make for theirs. Of course, councils that own land have an advantage, but I cannot see the advantage in terms of the housing revenue account.

**Andrew Field:** To look at the matter in terms of advantage and disadvantage is absolutely the wrong way to do things. When I talk to my local authority colleagues, they acknowledge that, in essence, it costs the same for them to build a house as it does for us to do that. Councils' interest is in provision in their areas. Some relatively low-debt and low-rent authorities have great capacity to use the prudential borrowing regime—indeed, authorities can build their own housing stock should they so wish. That said, few authorities in Scotland are in a position to do so. Some authorities have done a good job in that regard. Good on them: the money that they have found is additional money that they have brought into building the housing that the people of this country need. We absolutely welcome that.

Other councils can access a bit of funding through the prudential borrowing regime, but need a housing association to build the houses. We have seen recent examples of that. Of course, we welcome that and it is the sort of synergy that is



wanted. Other councils that have received a bit of the £50 million allocation have not yet spent any of it. They are struggling and need housing association partners to help them to build.

We are in danger of drifting into counterarguments on old-style municipal versus public/private sector programmes. It would be a genuine error to do that. As we move forward in this age of public spending restraint, councils and housing associations will need to work together. If the situation was as Brian Adam described, the housing associations would not—at a meeting in the west of Scotland that I attended the other week—have been asked by the local council whether they could take all the council's stock off it in a stock transfer.

11:15

**Brian Gegan:** I remind the committee that housing associations are, as I said earlier, currently funded by some £90 million in the programme. We are taking that forward to ensure that the completion rate is as high as possible. I endorse everything that Andrew Field has said about there not being a straightforward arithmetical comparison. We are not comparing apples and apples; we are comparing apples and oranges. They are two very different funding streams and two different kinds of organisations with different resources. The kind of liaison that Andrew Field is talking about is exemplified in East Lothian, where the local housing association has borrowed through the local authority to fund the development programme in its area. We ought to be working on that kind of collaboration instead of attempting to make a comparison between two entirely different financial mechanisms.

**Gavin Corbett:** Your question, Mr Adam, is one that went through my head as I was writing the Shelter submission to the budget. Standing back from it, it is a reasonable question.

Having studied budgets from the Scottish Office, the Scottish Executive and the Scottish Government for about 16 years, I am struck by the huge changes in what appears on the balance sheet. Four or five years ago—maybe a bit longer—what we now call prudential borrowing, which does not appear in the Scottish budget, would have appeared in the budget; therefore, some of those borrowing costs would have been accounted for. It can be argued that land costs should be accounted for. I hope that responsible local authorities are accounting for land that they are using, in effect, for nothing, because it is not free—there is an opportunity cost.

If one could see all the costs, the contrast might look a bit less stark. I suspect that we are victims of the varying conventions of what counts within

budgets, which are accountancy conventions rather than anything to do with the underlying economics—which might be similar for housing associations and councils. To me—a naive person—bricks would cost the same, as would a joiner and land.

**Brian Adam:** I find that answer disappointing, just as I found the ones from the SFHA. We are talking about the Scottish Government's budget, part of which is delivering affordable housing through the AHIP. The Scottish Government can get a unit of housing delivered by a local authority for £25,000 of direct Government money, but the same unit could cost it £78,000 through a housing association. I am all in favour of co-operation and mixed tenure, but why should we try to deliver housing through a mechanism that is more expensive for the public purse? It is the tenants who own the land and it is the tenants who pay the rent to the housing revenue account. I do not see any real difference. I do not think that it is just an accountancy convention; it is real money from the Scottish Government's budget. We could get more units by encouraging more council housing developments than by encouraging housing associations.

**Andrew Field:** Many councils in Scotland do not want to or cannot do that.

**Brian Adam:** That is fine. I accept that.

**Andrew Field:** That is a point for the committee to consider. Many councils in Scotland cannot or will not build council housing, not because they lack the technical skills—

**Brian Adam:** Should we not maximise the councils that can?

**The Convener:** Brian, let the witness answer, please.

**Andrew Field:** It is absolutely fine to focus on the councils that can or want to build. However, I am convinced that, if you had COSLA in front of the committee, it would tell you that £25,000 is not how much a unit of housing costs a council; it is the level at which, when it established the pilot, the Government said that councils must come in. That is what the Government told them. It was not a question of how much each unit costs.

The housing association grant is determined by a process that was set up by the Government on the basis of how much it costs to build a house. The council house programme was not established on the basis of how much it costs to build a house; instead, a grant level was set. The criterion for application is that a council can bid for that level of funding. Where it finds the rest of the money is up to it. That money comes not only from rents. Land has a cost. I take the point that the Government puts in the money, but councils have

to spend money, too. There is a cost to councils. The sum of £25,000 per house is unsustainable and will not continue. Councils have a finite amount of land that they are willing to give up for free as a contribution to the building of council houses. Brian Adam looks as though he does not accept that, but that is what local authority people have told me in my discussions with them.

**Gavin Corbett:** I accept the logic of the question up to a point, otherwise I would not have included in Shelter's submission on the budget an assumption about the amount of council house building. However, more fundamentally, if there is a need in an area and a range of ways in which it can be met, the question is who best can meet it by building the necessary quality and type of homes and—this is crucial—to create the kind of communities that we need. If a council produces plans that are robust financially and that meet those criteria, that is certainly one way forward. However if, as will happen in other areas, a housing association comes up with the idea, that is fine and we should let it proceed. That is the discussion that we need to have. It would be misleading to compare the sums of £25,000 and £78,000 and say that that leads to an obvious policy direction.

I know that Brian Adam was disappointed with my earlier reply. Andrew Field and Brian Gegan can defend and promote the housing association movement, but I think that there has been a false comparison. We need to ask more fundamental questions about who is best placed to build the sustainable communities that we want in the future. It will sometimes be councils and it will sometimes be housing associations.

**Nick Fletcher:** There is validity in what Brian Adam says. We welcome the fact that local authorities are moving back into building housing. There is a contrast between the sums of £25,000 and £78,000, but we should be aware of the uncertainty about how sustainable some of the local authority borrowing through prudential borrowing will be in the future. There are concerns about a danger that local authorities are rebuilding their debts for the future, when they have been doing lots of good work to reduce debts in the past few years. More time must be spent on studying exactly how sustainable that approach is and whether local authorities' business planning processes are working to ensure that they repay the debt over a 30-year period. If they can do that over a 30-year period and the approach is sustainable, that is absolutely fantastic.

**Brian Adam:** It is a 60-year period.

**Nick Fletcher:** Oh—it is a 60-year period.

Brian Adam talked about the housing revenue account. Funding projects in that way means

saying to current tenants that they will pay to meet future housing need. Is it right that a small proportion of people in Scotland, who are often the poorest, are being asked to pay for new housing? Should not the burden be spread across the Scottish population? There is a danger in respect of how local authorities use that money.

This takes us back to the questions that Mr McNeil asked about how to deliver more efficiencies. That requires partnership working. Brian Gegan talked about the good work on that in East Lothian. One threat to efficiencies is that local authorities that have not built houses for 10, 15 or 20 years are starting to do so again and so might be taking on new staff and creating new development departments. Is that an efficient way of delivering housing? What kind of backroom costs are stacking up?

A good way forward for a council is partnership working with housing associations that have a strong track record of building houses locally. A fantastic example of that is in East Lothian, where the local authority uses its prudential borrowing powers and gives money to a housing association to carry out the development. At the end of the day, either the housing association or the local authority manages the houses. It does not matter who manages the houses or where the money comes from as long as we build, for the future, successful and sustainable houses that meet the needs of our communities. If that comes about through closer partnership working, as it must do, efficiencies can be derived. We can make the best use of different sources of funding as they become available.

**John Wilson (Central Scotland) (SNP):** I am tempted to go into a historical debate about the provision of social housing in Scotland in the past 30 years and the reasons for the present situation regarding provision of housing in local authorities, but I will stick to the questions that I would like to ask the panel.

My first question is for the SFHA. I commend the membership of the SFHA for providing front funding of £90 million to deliver new-build housing, as is set out in the SFHA submission. Do you have an up-to-date figure for Scottish housing association reserves? This time last year, the Cabinet Secretary for Health and Wellbeing told the committee that those reserves were estimated at £300 million. Is that still the case or have the housing associations eaten into them?

**Brian Gegan:** I do not have the figure, but it might still be in the £300 million ball park. It must be borne in mind, however, that these are not free cash reserves but reserves that have been designated by housing organisations and associations primarily to facilitate planned maintenance programmes on the housing stock.

On our ability to front fund, we have owned and developed properties over the past 35 to 40 years and, as the debt on individual properties has been extinguished, we have used a certain number of them as security for borrowing. That borrowing has enabled us to move forward, to build new homes and to fund planned maintenance. The notion that that £300 million represents free cash reserves for associations to use as they please is a complete fallacy. Clearly, we need a contingency fund to deal with unforeseen circumstances such as bad weather but, as I have said, the vast majority of the reserves are designated for future property-related services. Our various cyclical and planned maintenance programmes are not supported by subsidy and must be funded by associations through rents and other activities.

**John Wilson:** Are the reserves used to build new offices for housing associations? The committee is looking at resources and efficiencies. This morning, you have asked the Government to bring forward additional funding for housing associations to build more houses. I accept that there is a housing crisis in Scotland, but we have to consider the public pound. You have just explained that housing association reserves are used for planned maintenance and contingencies such as, I think, bad weather. The committee is trying to examine what public money is out there: as far as I am concerned, housing association reserves are public money. They have been generated by the public pound—basically, by HAG funding that associations received in the past—and should, in this time of crisis, be used to deliver more housing. After all, delivering more houses will give you a greater rental income stream, which will allow you to recover the money that you have spent. Indeed, in examining the Government's budgets, we are asking the same question that you have asked: how can we best use current resources to increase the amount of available housing? All I am saying is that, if the associations' reserves are used to build more houses, those houses will generate additional income that can be ploughed back into future house building.

**Brian Gegan:** And that is exactly what we are doing by front funding to the tune of £90 million. That money is going out the door and has to be found somewhere.

You asked whether housing associations use reserves to build offices. Every organisation needs offices; some lease them, some buy them and some build them. However, I am quite convinced that each association has acquired its premises in the most effective way. The fact that every organisation needs a base is a cost that has to be built into the budget.

Moreover, under regulations, a housing association must demonstrate that it has a viable future financial position that will enable it to maintain properties and it must, in the case of a developing association, show that it can properly afford to undertake such activity. Although we are publicly funded, we have to operate as a normal commercial enterprise and cannot run at a loss every year, so we must ensure that we have sufficient reserves and contingencies to meet our obligations in the future, as is demanded by circumstances and by regulation.

11:30

**Gavin Corbett:** Shelter is a charity and is therefore expected to have 25 per cent of trading income in its reserves at any time. The level might vary from time to time, but I think that all organisations expect to have reserves in case of catastrophic circumstances. I do not know what percentage of all associations' trading income £300 million represents, but it would be wrong to suggest that reserves could be reduced to nothing—that would be financially imprudent for any association or charity.

**Andrew Field:** As the trade body, the SFHA has encouraged its members to make creative use of free reserves. Free reserves should absolutely be used creatively for the wider good of the community in which a housing association exists, and there are examples of the approach that we promote. However, as Brian Gegan stressed, associations cannot make use of reserved moneys that need to be spent on planned maintenance programmes.

**John Wilson:** Are any housing associations running at a loss?

**Brian Gegan:** The performance of each association varies from year to year. To a large extent, it depends on the size of the planned maintenance investment that the association is making. Planned maintenance is not a straight-line graph; it goes in cycles. Each year, most associations are running to break even or to generate a surplus to contribute to reserves.

Of course, the cost of borrowing has gone up, which must also be factored in. A range of factors must be taken into account when the organisation is budgeting for the year ahead. The regulator has a duty to ensure that each association is run on a sound financial basis, and that happens through the inspection process and annual submissions. We have to be able to demonstrate that we are balancing income and cost and, in particular, that we have 15 to 30-year projections of our planned maintenance.

To that extent, I am not aware of any association that is currently in grave financial peril, simply

because associations are under a duty to monitor their financial circumstances. The vast majority of associations are charities, so they are also governed by charity law, which Gavin Corbett mentioned. If there were warning signs in an association's annual returns, the appropriate regulatory bodies would intervene.

**John Wilson:** I want to compare the management costs of housing associations with those of other social landlords, such as local authorities. I understand that the average rent for a housing association house is £70 per week, whereas the average rent for a council house is £50 per week—please correct me if that is wrong. How does that relate to the question of affordability in rented housing? As Brian Adam said, if local authorities can deliver rented housing more cheaply than housing associations, local authority tenants' rents will be cheaper.

**Andrew Field:** I will not correct you. Housing association rents are slightly higher across the picture, although the picture varies in some places.

We will need to wait and see what councils do as a result of the new-build programme and how their rents compare with rents in housing association properties that have been built to the same standard. I will be surprised if there is a great difference. I am getting no indications from colleagues in local authorities that their rents will be much lower than those for local housing association properties of the same type.

Regarding management costs, the question is again about effectiveness and efficiency. I accept utterly—and we accept as a trade body—that management costs need to be driven down as much as possible, but that should not happen at the cost of losing the effective delivery of service. You are speaking to someone who has worked in both a local authority and a housing association, and I think that the delivery of service is critical.

I return to my earlier point that we need a much greater synergy in the relationship between councils and housing associations at the local level to deliver for local people. That may sound pat, but it is not. If there are four different landlords on an estate, there could be four different contractors, and it is not just housing associations that could improve their efficiency. We, too, could improve our efficiency, and we stand up and say so as a trade body. Councils and private landlords could improve their efficiency—of course, they could. We need to look at that in the round.

**John Wilson:** Thank you. That is helpful.

**The Convener:** I want to pursue the matter of rental income as against borrowing and as part of the funding mix. We have suggested that you could be more efficient and that more needs to be

got out of the budget. John Wilson has raised the affordability argument, and it was mentioned that the need for social rented housing will broaden beyond the groups that are dependent on it at this point. What are your views on all of that? What about the question of the pressure on rent—affordable rent, social rent? We are hearing more about the market rent, the mid-market rent and so on. Do you have some comments on how that is going to play in the mix?

**Brian Gegan:** I will kick off that debate.

Traditionally, housing associations and local authorities have housed people who either did not want access to owner occupation or found it financially difficult. In the past 10 years, however, there has been a concept that housing associations and local authorities house almost a residualised sector, given the growth in owner occupation. Nevertheless, as property price inflation has taken hold over the past decade, I have found that the demand for the products that we produce is broadening all the time to include key workers and people in medium-paid employment. Here, in the city, the average house price has fallen from £220,000 to £198,000, but that is not a lot of comfort to someone who earns between £20,000 and £30,000 a year. We are seeing a broadening of demand. That is why we have been working with the Government and colleagues in local authorities to broaden the range of tenures—shared equity, homestake, shared ownership, market rent and mid-market rent. People are more transient now.

We were asked about the issues that we would like to fix quickly to improve supply. As Andrew Field said, how we use housing subsidy is important—not just housing association grant but subsidy to local authorities—because there is now a timing mismatch between the subsidy mechanisms and what society in Scotland actually needs. It is wrong to suggest that local authorities and housing associations deal only with those who are homeless or in poverty; we address the housing needs of a much broader mix of people. That being the case, we need to think—as you and your colleagues correctly point out—how best to use the subsidy.

Over recent years, the credit crunch has focused attention on what we use housing subsidy for. We need to create a vision and a framework for delivering the housing that society needs. Mr Wilson said that he was tempted to give us a history of the social housing sector in Scotland. I profess to having lived through a goodly proportion of that, and I think that the time is now right for us to consider how to utilise the subsidy. Which groups of people are actually in housing need?

Owner occupation is at 70 per cent, and that has generally been lauded as a good thing, but the fact

is that the economic circumstances are now such that many people cannot access the market. We need to think about what kind of housing to build and where—and to approach the question much more radically than we have done in the past.

**Gavin Corbett:** It is a huge issue, as the committee knows. The question of what rent should be is based on the question of who social housing is for.

If we accept—as very few people do—that social housing is simply there for people who need access to full housing benefit, the rent question does not matter so much. However, if public policy included a minimum annual wage, it would be reasonable on the face of it to suppose that somebody on the minimum wage would be able to afford a social rented house without reliance on housing benefit. That is not currently the case, but we might still ask: by how much are we out of step with that? That is a starting point for asking what an affordable rent is.

Each year over the past 20 years, people will have said that rents are starting to increase by a bit too much. We have never reached a tipping point, but we should now ask what rent is reasonable for somebody on the lowest earned income to afford without their having to get housing benefit and without people experiencing the problems of falling into the poverty or employment trap. We are not having that debate because of the devolved-versus-reserved nature of housing benefit and other aspects of housing policy.

**The Convener:** But you might disagree a bit with Mr Gegan, at least as far as the short term is concerned. In your written submission, you propose that we should use some of the additional money in existing budgets by reassigning some of the funds that are currently allocated to low-cost home ownership. Mr Gegan has just said that we need to be more radical in that approach because of the type of people we want to serve. Is it just a short-term view that you take regarding the realignment of budgets?

**Gavin Corbett:** It is pragmatic. I accept, as everyone else here probably does, that there should be an element of low-cost and entry-level home ownership. There should be a certain level of mid-market rent, if we ever get round to pinning that down—that simply lies between free-market housing and social housing.

The question is whether the balance is right, given the statutory commitment that is to be met by 2012. Much of the evaluation of low-cost home ownership schemes that I have read over the years has tended to suggest that they are good at accelerating entry to home ownership rather than necessarily allowing access to home ownership for

people who would otherwise not get it. There are big differences, with some examples of schemes and funding streams that have achieved real additionality, but I question how effective some of the low-cost ownership schemes have been over the past 30 years. That is why I suggest that we examine the present balance.

**Nick Fletcher:** Affordability, which has been alluded to, is a key issue, and we need to consider, in that context, how to meet the widest possible range of housing needs. We know that the social rented sector can meet the housing needs of only a certain number of people. I spoke earlier about low-income families who do not meet the needs profile to access social rented housing because of the limited number of houses in that sector—nor can those people access the owner-occupied sector.

The level of owner occupation in Scotland is now somewhere between 65 and 70 per cent, and the question must be asked: when do we reach a sustainable level of home ownership? Some commentators and researchers are suggesting that we have now reached that sustainable level, so the drive for increasing home ownership is no longer there. We are now discovering some of the consequences of reaching that level of sustainability. We have been pushing, or at least encouraging, people who are on the margins of being able to sustain home ownership to enter the market and, on hitting the recession, we have found that a number of families and households have been unable to support themselves in home ownership.

In considering affordability, we should break down some of the differences between tenures. We talk about the social rented sector and the owner-occupied sector, and those are very different tenures, with very different sorts of people living in them. We are keen to consider how to break down the barriers, especially given the crisis and the changes in the housing market.

11:45

In reaching a sustainable level of home ownership, it is now the time to consider how we can build more flexibility into tenure. Rather than try to push somebody who fits the social rented profile into home ownership or to push somebody who is on a reasonable income and might just be able to sustain home ownership in the direction of that tenure, could we break down the barriers between home ownership and renting, build a house with some public subsidy and ask the person who moves into it whether they want to rent it or aspire to owning it fully? If they felt that they could afford to buy only a 20 per cent equity stake in the house at that time, we could let them buy that. That would enable us to recycle some of

the public subsidy that went into the house and put it back into future housing investment. During the person's lifetime in that house, they could perhaps buy extra equity in it and move towards home ownership if that was their desire, or they could scale back a bit on their ownership as their circumstances changed.

If we did that, we might bring a bit more stability to the housing market, move it away from the huge crests and dips in house prices and from big crashes. If it was not all about home ownership and there were various ways in which people could occupy their homes, they would not necessarily have to give up their houses and live somewhere else if they got into difficulty. It can be costly to put people through the homelessness process, but we could enable such people to remain in their houses by offering a range of packages that allowed flexibility within the tenure that they had.

If we move towards such flexibility in tenure, we will address some of the affordability challenges and make better use of the subsidy that goes into affordable housing.

**Patricia Ferguson (Glasgow Maryhill) (Lab):** I apologise if my questions are slightly disparate, but that is what happens when one comes in at the end of the questioning. However, I think they all link back to the recession.

Mr Gegan almost got to the point of answering my first question—I am glad that he did not—when he conversed with the convener about the number of people, and the different kinds of people, who come through to the social rented sector because of the acceleration of house prices. Has the housing association movement been able to plot what changes are happening to the demand for its housing as a direct result of the recession?

**Brian Gegan:** The simple answer is that there has been an increase in demand for the products that we provide—it is as simple as that. We read every day in the newspapers about firms going bust and people being made redundant and having to give up their homes, particularly in the owner-occupied sector. In Scotland, the downturn in house prices has not been as marked as it has been south of the border, so the shortages that prevailed prior to the recession have simply been exacerbated by an increasing number of people whose economic and financial circumstances have changed.

The reports that the federation gets from its members are that demand for our products is increasing, particularly in the rented sector, as Nick Fletcher said. If someone loses their house as a result of mortgage arrears, their ability to obtain another loan will clearly be severely constrained, so they look for a rented tenure. I

agree with Gavin Corbett that that is where we have to go, although that does not mean to say that we ignore other forms of tenure that people on low to middle incomes can afford.

In general, the answer to your question is that there has been an increase in demand for the products that we and the local authorities provide.

**Patricia Ferguson:** I am sorry to put you on the spot, but can you give a percentage figure for the increase? I am conscious that, at various times in the past, some of the housing associations in my area have had to cap their waiting lists, such has been the demand for the housing. I discuss that with them locally, but is there an overall picture in Scotland that would help the committee to understand the situation?

**Andrew Field:** We are surveying members on that at the moment, and I hope to involve local authorities in that survey. Indicative responses show a 20 to 30 per cent increase in applications over the past couple of years. MSPs and MPs regularly talk to us about the increased number of housing queries with which they have to deal. We hope to have a fuller picture in the coming weeks, but it is a relatively significant increase.

Where I disagree slightly with Shelter is that I think that we should exist to meet housing need, although that is a tough nut for us to crack. We would be quite saddened if housing need ended up being determined solely by whether someone was homeless. If someone had to become homeless to get a house, that would be a backward step in our sector's development. Parliament must recognise that housing need can come from any quarter and that a significant proportion of our population—a quartile, I think—is not served very well by us at the moment.

**Gavin Corbett:** For the record, I agree with the SFHA on that. No one is saying that only the homeless should be allocated social rented housing—that would be a difficult and unpopular decision.

On demand, the number of people on council house waiting lists has risen by 15 per cent since 2000. However, we have mixed information on how that has changed since late 2007 and how the nature of the demand has changed. Councils are currently putting together housing need and demand assessments, and the Scottish Government is considering what it can produce in aggregate from those assessments as well as looking at the national model—the Bramley model, to which Andrew Field referred earlier—in the context of changed housing market circumstances. I understand that some conclusions from that are due to be published in early 2010, which will inform us—in an aggregated

way—of what has been happening over the past year and a half or so.

**Patricia Ferguson:** My second question is about land banking. I understand the points that have been made about land banking—it makes perfect sense. However, I wonder how extensive the opportunity is to acquire land. At a time when land values are deflated, some people might be holding on to their land in the hope that it will increase in value in the near future, rather than being in a rush to sell it off to whichever housing provider.

**Brian Gegan:** There is not a consistent picture across the country. Many of the private house builders held ownership of, and options on, considerable tracts of land. What they want to do varies from company to company, depending on their cash flow and financial circumstances. Many were constrained from moving on site to start building when the bottom dropped out of the market. That affected particularly the first-time-buyer market of flats and smaller properties. Nevertheless, the footfall for building companies is now increasing.

The opportunity for land banking still exists. Much of the land is linked to the house builders' own plans, which is why we are exploring with them the kind of turnkey operation that I talked about earlier. The idea is to get the properties built first and for us to pay for them on completion, rather than to incur 12, 14 or 15 monthly certificates. There are ways of getting around that.

We must also consider the housing mix on particular sites. Many of our members are approaching local authorities with the house builders and are saying that in order to move things on they will, instead of building two-bedroom flats, build larger family homes because those are the properties that are wanted by second, third and fourth-time buyers. It is about being creative and innovative and taking advantage of the opportunity for land banking when it arises. As I said in response to a question from Mr Doris, we need to telescope the three-year period, and that is where land banking can help. Whether the site comes into use in year 1, year 2 or year 3, land banking gives us the advantage of being able to telescope that period.

I am convinced that the opportunity for land banking still exists, although how long it will exist remains to be seen. There are indications that landowners are beginning to see an upturn in certain areas of the market and are not quite so willing to part with land at lower prices than they would previously have received. Nevertheless, opportunities still exist. I would say that they will prevail for the next year or 18 months.

**Nick Fletcher:** I agree with Brian Gegan. There are land banking opportunities, because a number of private developers are keen to offload land. Even though the price of land has gone down, developers are keen to sell because they are trying to write down and reprofile debts. A number of private building companies that historically have had big land banks are trying to lose some of their land.

There are also opportunities with landowners who might be unwilling to sell but might enter into covenant deals whereby there is an option to purchase land but the sellers can take out the rise in equity when the land value goes up. Landowners might be willing to enter into such deals. The issue could be explored, with a view to allowing more land to be put aside for affordable housing.

**Gavin Corbett:** I attended a meeting with senior planners about three years ago, before the current circumstances in the housing market. To a person, they lamented the failure of public policy to accumulate land during the previous recession in the early 1990s. The lesson is obvious and we should not make the mistake twice.

**Patricia Ferguson:** That might be another use for housing associations' reserves.

Are housing associations' wider action programmes being affected by the recession and associations' ability to move forward? I would be concerned if that were the case, because such programmes often help to keep communities together through employment, self-build housing and other innovative approaches that have been taken during the past 20 or 25 years.

**Andrew Field:** The wider role budget has greater political significance than might be implied by the amount of money that is attached to it. It is regarded as being very important. Wider role is a specific budget, which is dedicated to housing associations to help them to meet three strategic objectives: financial inclusion, employability and early intervention. As you will see from our submission, the money funds a broad landscape of activity. The budget has suffered a cut from £12 million to £10 million. It is due to end—this is its final known year—although that does not mean that it will end.

Our early view is that wider role funding has been shown to punch above its weight. It funds a lot of things. For example, it can help to fund welfare benefits workers in a housing association, which brings me back to what I said about synergies. If a housing association has a benefits adviser who is funded via wider role funding, and there is council housing stock in the geographical area, we can share that worker. That makes sense to us.

We would not want to see the end of wider role funding, but when we consider its three strategic objectives alongside the money that is allocated to it we can see that there is some discord. Consideration should be given to homing in on a key objective and, perhaps, to finding synergies with other budget heads. Wider role funding could be dedicated to health, economic activity or community development, for example. There is a debate to be had about that. Ending wider role funding would be a regressive step, but the approach perhaps needs to be more finely honed and synergised with other budget heads, so that it can have a greater impact.

Wider role funding punches above its weight and housing associations would certainly miss it if it went. However, the committee should know that housing associations tend to use wider role funding as a lever to bring in other money. It is a bit of a generator and has been helpful in that respect. It should not disappear, but it needs a bit of refocusing and tightening up.

**David McLetchie:** Following on from the answers to Patricia Ferguson's question about land banking, I want to focus on the suggestion that we have public sector land hoarding and that a number of public sector bodies—such as councils, health boards and Government agencies—that have surplus land that would otherwise be available for development for social housing are holding on to it. The suggestion is that they are not prepared to sell it to housing associations because of the current value that that land is attracting; they think that if they hold on to it for a year or two longer, they will get a few more millions in their coffers. Do you have any evidence that that is case, or is that an urban myth?

12:00

**Nick Fletcher:** That is partly what I alluded to in my answer. There is some evidence that health boards and Government departments, more than local authorities, might be holding on to land because they want to get the best price for it. They have to strike a balance between getting the best value for the land and putting it to the best possible future public use. There is some evidence of a slight unwillingness to sell land, which is why I alluded to the potential to do deals with such landowners, whereby they could sell land now but could include an option to get extra equity out of it at a later date to compensate for a rise in land prices. There is some evidence that difficulty is being experienced in getting access to such land.

There is also a need for the Scottish Government to put more pressure on public bodies that own land. It needs to say to them that it is not just a question of getting the highest value for it—they should also consider what the end use

will be and what public benefit that could bring for the wider population. More emphasis needs to be put on that. Such work is being done with local authorities, which now have the power to look at how they dispose of land. They do not have to think only about getting the highest value; they can dispose of land at a lower value if doing so will deliver high-quality housing or other high-quality community facilities. I think that more pressure needs to be put on other public bodies to ensure that that happens with their land.

**Brian Gegan:** I echo that. I have had some experience of that with health boards, and particularly with central Government bodies such as the Ministry of Defence. As Nick Fletcher says, it is less of an issue with local authorities.

It is not just the land hoarding that is a difficulty; it is also the imperative for bodies to seek the maximum return for land, which can often be a significant barrier to bringing it into use for affordable housing. That was particularly true prior to the financial recession and the credit crunch. To a large extent, the reason for that goes back to the planning issues that I mentioned.

I was involved in the review of Scottish planning policy 3. At the time, the Scottish Government was, I understand, embarking on an audit of publicly held land to ascertain where it was. At a time when land was the key to increasing supply, the notion was that affordable housing should be given priority status in two ways. The first was by way of a recommendation that when a public authority considered disposal of a land asset, the first criterion that it should apply should be about its suitability for use for affordable housing. We were not suggesting for one minute that all land should be used for affordable housing, but that was certainly the first test.

The second was that consideration of planning applications for affordable housing should be given a certain status in the planning system, to enable them to be fast tracked—I use the phrase advisedly—through it. When I made that suggestion to the Government's chief planner, he was somewhat aghast, particularly as it came from a retired planner. Nevertheless, I think that there is some merit in examining how the planning system deals with affordable housing applications. I go back to the point that my colleague Andrew Field made about making the provision of affordable housing a priority, not only in strategic housing investment plans, but in structure and local planning.

I think that there is some evidence to substantiate the assertion that Mr McLetchie makes, but there are also downstream issues that we must address.



**David McLetchie:** In effect, we are talking about an act of speculation on the part of the public bodies, because it is not as if they would get less than the market value if they sold their land now. They are speculating that the value of that land will rise in the future. No one is asking them to sell it for under its value; we are asking them to sell it at current market value. If they refuse to do so, they are, in effect, speculating on a rise in the market value. Is not that correct?

**Brian Gegan:** Yes, I agree with that. They are taking advice from valuation surveyors, and any surveyor worth his salt is going to say, "I believe you can get a better price for that in 18 months or two years". They have to be able to demonstrate an audit trail of appropriate advice in that respect. If such land is to be brought into use for affordable housing, there must be some change in the mechanism by which disposals are identified and processed.

**David McLetchie:** To follow on, I want to ask about planning and affordable housing. As I understand it—you can correct me if I am wrong—any housing development that is approved in Edinburgh has to allocate 25 per cent for affordable housing. As a consequence, something like 4,000 affordable houses have planning approval in Edinburgh, but relatively few are being built or have been produced through the system. The 25 per cent policy was born of the boom times, shall we say, in an attempt to extract value for social housing from a boom in private sector construction. Is that policy now a barrier to recovery in private sector housing because it puts a financial constraint on the development of such sites? Would it not be better to get 10 per cent or 15 per cent of something rather than 25 per cent of nothing?

**Brian Gegan:** That is not necessarily the case. Some developers of private sector sites have approached my members and me to ask whether they can build the affordable part of a scheme first in order to keep their cash flowing and their operations working. Generally, I do not think that it would be fair to say that the policy is now a barrier.

Clearly an individual site's characteristics, where the affordable housing is, and where it comes in the phasing of the overall scheme might dictate that the affordable housing is delayed because of certain market circumstances—I know that Edinburgh has a particular problem with this—but overall the affordable housing policies and the section 75 agreements have been effective in increasing supply. Although the focus has had to change because of the current economic and financial circumstances, they have not been a substantive barrier to the affordable housing supply. Those policies were a move in the right direction for the planning system.

**Gavin Corbett:** The Scottish Government said last week that the number of section 75 approvals through affordable housing policies slightly increased in 2008-09. We can forward that bulletin to the committee. In a sense, that is surprising because of market circumstances, but it probably backs up what Brian Gegan is saying. Affordable housing can be quite attractive to developers who would otherwise struggle to make the market stack up. Affordable housing seems to be quite robust.

**David McLetchie:** In an answer to one of my colleagues on the roles of housing associations in local authorities, Mr Field said that he had been discussing a stock transfer proposal with a council. Where is that?

**Andrew Field:** I cannot tell you that because I am not quite sure that the council's committee has passed the proposal yet. I will certainly get back to you as soon as the council has made a firm decision, if that is okay.

**David McLetchie:** That is perfectly all right.

**The Convener:** I thank the witnesses very much for their attendance today. Their evidence is very much appreciated. We will move to our second panel in a moment.

12:09

*Meeting suspended.*

12:11

*On resuming—*

**The Convener:** I welcome Jim McCormick, who is Scottish adviser to the Joseph Rowntree Foundation. I apologise for the overrun earlier and thank him for his patience. Unfortunately, Peter Kelly of the Poverty Alliance is unavailable today. He has apologised that, due to circumstances, he is unable to make it here today.

Do you wish to make some opening remarks before we move to questioning?

**Jim McCormick (Joseph Rowntree Foundation):** I will do so briefly. I have given evidence previously, but I will say just a brief word about the Joseph Rowntree Foundation. We are an organisation that carries out research and development on social policy. We are a four-country organisation, so we span the whole of the UK. We are by no means the biggest player in the field, but our annual budget for research and development funding is in the order of £7 million. A reasonable proportion of that comes to universities and practitioners in Scotland.

In framing the issues that are relevant to the committee, JRF's focus is on what it will take to achieve a just and sustainable recovery. Our focus

is mainly on what consequences the trends that we are living through have for low-income people and places. For example, our current work includes a retrospective look at what we have learned during the 10 years of devolution throughout the UK and what difference that has made for low-income people and places. Later this year, we will publish two papers that I hope will be of interest to the committee. One of those will look at the story for housing and homelessness across the whole of the UK and will show how Scotland has fared compared with other parts of the UK. An accompanying paper will look at community engagement in neighbourhood regeneration and will examine how Scotland compares with the rest of the UK. Those are part of an attempt to build up cross-country capacity to analyse what we have learned and, more important, how we might apply some of those lessons in the years ahead.

**John Wilson:** Good afternoon. I thank Jim McCormick for that introduction and I look forward to the two research papers on homelessness and regeneration, which will surely help to contribute to the Parliament's debate on how policy should be taken forward.

The main issue that we are here to examine today is the Scottish Government's draft budget, which you will have had the opportunity to see. Do you have any initial views on the draft budget, particularly in relation to tackling poverty—especially child poverty—in Scotland?

12:15

**Jim McCormick:** My overall sense is that, because we are moving into a prolonged period of not just flat cash but falling real-terms investment in all sorts of public services, it has become exceptionally difficult to maintain the progress that has been made in the past decade. Even before the recession began and we moved into the budget that lies ahead, there were signs that progress on tackling poverty in Scotland had, at best, stalled. We are now going into this difficult period flatlining rather than with a sense of momentum, so it is doubly difficult.

You have talked at length about affordable housing. The picture of poverty in Scotland has changed in the past generation. Today, about half of the families who are in poverty in Scotland live in private housing—either privately rented or owner-occupied—and about half live in social housing. Almost half of the children who live in poverty live in a household where someone is in work and about half live in workless households. The picture is more complex and finely balanced than a decade ago. That means that we should be looking not just at social housing but at what is happening to house prices generally. We should

try to ensure that we are using all the tools that are available to tackle poverty.

Broadly, there are three ways in which we can tackle poverty at any point in time. The first is to ensure that people are earning more. There are a range of mainly reserved policies that help us to do that, based on tackling low pay. The second is to ensure that benefits are uprated in line with earnings, not just prices. In Scotland, we can also do a lot to ensure that benefit uptake levels are maximised.

The third way of tackling poverty, which is largely undeveloped and on which the current draft budget and budgets to follow could do more, is to reduce the outgoings that low-income families face. Save the Children has done a lot of work on the so-called poverty premium, which shows that, in essence, the poorest households pay more as a proportion of their income for various bills—for fuel, for financial services, for borrowing and so on. In Scotland, we could engage with the providers of those essential services to drive down the poverty premium and ensure that people on low incomes pay no more, as a proportion of their income, than the rest of us do for essential goods and services. There are interesting gaps in our policy and practice in Scotland. Addressing those gaps does not involve straying into reserved powers or spending more but is to do with expecting the private sector, which provides those services, to deliver more towards our shared objectives.

**John Wilson:** I am interested in the three ways of tackling poverty that you described: increasing earned income; increasing benefits and keeping them in line with inflation and other costs; and reducing the outgoings on energy and other bills for people on low incomes who have to pay more, particularly for fuel. Although there can be some input on the issues that you raise through the Scottish Government, its agencies and local authorities, most of the issues relate to UK policy direction by the UK Government. I am thinking of issues such as the minimum wage, although at present we have a campaign in Scotland—particularly in Glasgow—for a living wage.

However, apart from the three issues that you have mentioned and bearing in mind that the Scottish Government has signed up to targets set by the UK Government, what more do you think the Scottish Government and local authorities could do in the draft budget to alleviate poverty in Scotland and to move away from the flatlining to which you referred?

**Jim McCormick:** That is a very fair question. Two thoughts come to mind, the first of which relates to the powers that have been not only devolved to the Scottish Government but doubly devolved to local government. Certain things jump

out when one looks back, as the JRF has done, at what has been done with devolved powers across the UK. For example, when we consider the initiatives that have been introduced to help people to move into, stay in and progress in work, such as the working for families programme, which the committee adviser knows more about than anyone else, and the new futures fund that was introduced back in the first parliamentary session—programmes that were well evaluated and which, compared with other programmes, demonstrated added value by dealing with child care issues and removing other such barriers to work—my concern is whether we are investing in things that we know without a doubt work well.

Given that those kinds of effective initiatives are now being folded into integrated regeneration projects, the fairer Scotland fund and so on, the question is whether we are sure that local authorities are drawing on good practice and the evidence base and putting their limited investment into the most effective programmes. I cannot offer a view on that other than to say that I hope that we will evaluate how effectively local authorities are investing in tough times. Government still has a role in providing advice, guidance and good practice based on the evaluation evidence. Indeed, the programmes that I have just highlighted are particularly good examples of how we could use wholly devolved powers to continue to reduce and remove barriers.

Although my other example does not technically involve devolved powers, we can still learn a lot from it. Northern Ireland, whose experience of devolution over the past decade has been very stop-go, has had far more power devolved to it with regard to employment services and benefits administration than Scotland has had. One consequence of that is that Northern Ireland has the UK's highest pension credit take-up rate. Over the past couple of years, it has very effectively promoted take-up and ensured that those who are eligible have claimed what they are entitled to. In Northern Ireland, the take-up rate is now about 80 per cent, whereas in Scotland it is more like 60 per cent.

Even in policy areas in which powers have not been formally devolved, we could look at whether administrative devolution has been effective. Are the Department for Work and Pensions and its agencies in Scotland focusing as much as possible on achieving maximum take-up of existing entitlements? Even the Calman commission missed the Northern Ireland example that I highlighted and which I think could open up interesting opportunities for Scotland in the years ahead.

**Patricia Ferguson:** As someone who has been interested in plotting the impact of the fairer

Scotland fund, I am well aware that the £145 million per annum that had been allocated for three years was ring fenced—and indeed is ring fenced up until March 2010. My concern is how we will monitor its impact once it is rolled up into general local government funding. Has your organisation done any work on tracking funds such as that once they have disappeared into a bigger budget? Are you concerned that, at a time when local authority budgets are also under strain, that funding might not go in the direction in which it is intended to go?

**Jim McCormick:** There is a general principle here. Do we in Scotland have a clear rationale for what remains ring fenced, with a high degree of central involvement and oversight, and what is devolved and integrated into other funding streams? The draft budget is quite helpful in setting out exactly what remains ring fenced and what does not. It is helpful in describing the state of play.

What we lack, however, is the argument behind the decision whether to ring fence or not and an explanation of how that is worked out. Over the next couple of years, we need to spend time evaluating as best we can the impact of some things being locally devolved and integrated in the general local government settlement and other things being held at the centre. Towards the end of the year, the JRF will publish a first look at what we have learned not just from the experience in Scotland but from the communities first programme in Wales and from the new deal for communities in England. It is helpful to look outwards and not just compare local authorities in Scotland. Although I cannot give you a clearer answer at the moment, the matter is of live interest to the JRF. We are trying to learn lessons from the interesting variations in approach that are springing up across Great Britain at the moment.

The overall issue is that, through, for example, the Scottish centre for regeneration, which has a pretty good grasp of what the risks as well as the benefits might be, we should do what we can to monitor what is happening in different types of authority. If you plot the 32 local authorities in Scotland going into this period, you will see that some will be adept and experienced at using the new powers that are available while others will be less confident and have less capacity. What we need from the Scottish Government is a properly targeted way of supporting authorities that are closer to the back of the pack, to ensure that they can learn from authorities that are more confident and have more capacity to grasp the opportunity that they have been given.

**Patricia Ferguson:** The coming year will be the first in which the fairer Scotland fund, for example, will have been rolled up in this way. However,

other things have previously been put into local government budgets without being ring fenced. Do you think that the single outcome agreements, as they are currently framed, give us enough information to be able to plot the effectiveness of such money—particularly money that, although not ring fenced, is clearly intended by the Scottish Government to be used to alleviate poverty and support communities?

12:30

**Jim McCormick:** We are still in the early phase of developing a robust way of creating single outcome agreements and I suspect that the picture is quite mixed, with good and not-so-good examples. We are getting much better at stating clearly what the objectives are of the various initiatives and activities that will take place under the fairer Scotland fund when ring fencing goes. It should be possible to judge and monitor how close we are getting to those objectives and outcomes.

What concerns me, though, is that it is not clear how firm the evidence base is on which those objectives are being set. I return to my very first point. It does not happen very often, but when we have clear, well-evaluated evidence of what works and what adds value, we should prioritise investments in those areas because we should be much more confident that we are going to get value for money and good outcomes. My hunch is that there are a lot of initiatives that are well intentioned and have absolutely the right objectives but which, on the basis of evidence from the past decade, may not be the best investments that we could be making.

**The Convener:** I have lost my wee list. I think that it is Jim Tolson next, then Brian Adam and Bob Doris.

**Jim Tolson:** Good afternoon, Mr McCormick. In your opening remarks, you mentioned—rightly—that there have been real-terms cuts in some budgets. I would like to focus on fuel poverty. There has been a £5 million reduction in the energy assistance package. What do you consider to be the implications of that reduction for the Scottish Government's fuel poverty targets in the years to come?

**Jim McCormick:** We should look at that across different timelines. There are the immediate consequences for the year ahead and the action that will need to be taken beyond that. Any cut in a budget that is targeted at a need that is created either by the poor energy efficiency of housing or by low incomes is likely to mean that we will have fewer resources available to tackle fuel poverty. It means that our ability to reach the target of eradicating fuel poverty is slowed up—it will take longer and our ability to take action will be

diminished. As the draft budget develops, we will have to see whether there is a clear statement of where that funding gap will fall. There may be ways to target the investment more effectively, so that the impact on people who are in the most extreme fuel poverty is lessened.

Looking ahead, I suspect that the more significant issue will be the need to tackle the structural problems that underlie the persistent problem of fuel poverty. That is not just about housing stock and fluctuating fuel prices; in Scotland, it is fundamentally about the use of pre-payment meters. The fact is that people who rely on pre-payment meters—often through choice, as such meters allow them to control how much they spend—pay much higher tariffs. One example that was published last year showed that, at its extreme, the pre-payment tariff that people with meters are paying is £300 dearer than the best social tariff that is supposed to be available from the same companies to assist low-income households. We can start to do something to change those structural barriers.

It is true that the formal powers to act in that area rest with Westminster. Nevertheless, we should not neglect the powers of persuasion—the soft powers, if you like—that are available to the Scottish Government and even to the Scottish Parliament in engaging with energy providers. There ought to be an objective of removing the need for people on low incomes to use pre-payment meters, as we can come up with better approaches that cut costs while still giving households with limited incomes the control that they need over their energy spending. The last thing that households want is to get into unmanageable fuel debt. It is a difficult balancing act, but my message is that we should not take too literal an interpretation of devolved and reserved powers. There are lots of grey areas. If the First Minister or the Cabinet Secretary for Finance and Sustainable Growth chose to make that objective a priority in their engagement with important players in the private sector, we might see movement on that in the near future.

**Jim Tolson:** I think that pre-payment meters are a good example when we are talking about fuel poverty. The Scottish Parliament and others in the UK have put pressure on the Westminster Government, which has now said that it will have a nationwide roll-out of smart meters, which will help to overcome a lot of the situations that you have alluded to. It might be that more pressure could be put on the UK Government, now and in the future, to roll out those smart meters much more quickly. I would be interested to hear your comments on that. It would put more emphasis on reducing fuel poverty issues.

Is it not high time that the Government in Scotland, if not in the UK, said that that 2016 target for ending fuel poverty is unreachable? The Governments should be honest with the public and ask where we need to go to reach such a target. Should we put another date on it, or should we just say that the target cannot be reached in the current circumstances and that we will do our best to reach it at some other point?

**Jim McCormick:** It depends on what kind of target we think it is and what we want it to be. I compare it with other targets that might have gained more prominence, such as the now binding duty on the UK Government to reduce child poverty and end it by 2020. Although we are off-track with that target, I do not think that anyone or any political party has said publicly that we should ditch it and say that it is just too tough. Across the UK, we have said that the best way to make sure that we remain focused on a target is to make it binding in law. We are doing the same with climate change targets.

I challenge the Scottish Government and Parliament to say what kind of target we want the 2016 target to be. Do we wish it to be a statutory and therefore binding target on which we hold the private sector to account as well as expecting the Government to take action? Alternatively, can we take pressure off that target—with a lower-case t—when times get tough?

I think that the 2016 target should be binding. We should be setting milestones; we should say that we will halve the number of people living in fuel poverty by a certain date, and that we will abolish fuel poverty by another date. We must not let energy providers off the hook with what they can do to ensure that we remain on track. Of course, Government has a continuing responsibility to ensure that other sources of income, such as benefits and tax credit, are claimed consistently at a higher level to ensure that people have a higher income threshold. That is another way to start eating into the phenomenon of fuel poverty.

**Bob Doris:** I want to ask about the energy assistance package. The committee's briefing is that the £5 million decrease is because there was a one-off £5 million payment during the last financial year. It is a stand-still budget, but even so, there will be a real-terms decrease in the energy assistance package, if my briefing paper is correct. That is not ideal, because times are tough.

We are looking at ways in which the Scottish Government, the UK Government and private companies can work together. The key point to make about the energy assistance package is that the concept is not about fuel poverty, but about poverty. Fuel poverty is a form of poverty and one of the essential parts of the energy assistance

package is to encourage everyone who engages with it to get a full benefits check—you talked about benefit uptake campaigns in Northern Ireland.

Through the energy assistance package, the Scottish Government is providing a service that complements a responsibility of the UK Government, so there is an overlap in that. You may also be aware of the home heat helpline, which is run by the five or six large power companies. They say that they use the helpline to target their most vulnerable customers to put them on social tariffs. There appears to be duplication. Do you have any information on, and maybe recommendations for, how the Scottish and UK Governments and private companies could work together more effectively not just on fuel poverty, but using the energy assistance package to tackle poverty in general?

**Jim McCormick:** You are right to say that there is duplication in that territory. If this really tough phase in public spending and the economy focuses our efforts on removing that duplication, that must be a good thing.

I will give you some examples. Some of the energy companies are on record as claiming a twentyfold return on investment in the kind of initiatives that you are talking about to boost take-up of benefits and ensure more efficient heating—that is, a benefit of £20 from every £1 that is invested in those initiatives. Some local authorities, with their voluntary sector partners, claim a tenfold benefit for every pound that is invested. That is quite a big range in the scale of benefits that flow.

It would be of concern to me if every local authority were trying to invent its own way of engaging with the voluntary sector and the DWP to ensure that we get the maximum benefits and/or tax credit take-up. There must be ways of achieving some efficiencies at a strategic level in Scotland by determining what we know about the most effective ways of targeting lone-parent households and other fuel-poor households, the elderly and so on. We can use that kind of analysis to roll out a more effective local delivery of advice and guidance. Demand-led phone lines that people use to get advice are one way of doing that, but there are others. I am not sure what the most effective ways are, in terms of value for money and outcomes.

A controversial area to be resolved is energy companies' social tariffs. In the past couple of years, the majority of the main energy providers have come up with social tariffs that are more expensive than their best-buy options. The latter are usually online monthly direct debit options and are almost always out of reach of the households that we are talking about. There is a big question

around how we can ensure that social tariffs are the cheapest options that are available rather than something that pretends to be the cheapest option.

There are parallels to be drawn with the way in which local authorities and other housing providers have tried to ensure that affordable home insurance comes within range of their tenants. There is a long-standing practice of developing insure-with-rent schemes, whereby the local authority or housing association acts as the intermediary with the insurer to deliver mainstream policies at affordable prices for tenants. In a parallel way, local authorities and housing associations could act as brokers with energy providers in the energy marketplace in an effort to drive down the costs of the social tariffs—through procurement and bulk purchase deals—to ensure that people who currently spend the highest proportion of their income on energy get the average market deals that the rest of us take for granted.

There are a number of fronts on which we need to take action and be creative if we are to crack the problem. We need to do something about the housing stock, change the way in which people pay for their energy and ensure that income is maximised. Those must all be part of the equation.

12:45

**Bob Doris:** I have one other question that goes off in a slightly different direction. People say that you should know the answer to a question before you ask it. I do not know the answer, however, and I have no idea what you will say.

We are talking about moving budget lines about and trying to create the most effective budget. Some people have suggested that, in the current financial climate, initiatives such as free, nutritious school meals for children in primaries 1, 2 and 3 should not be offered and nor should free prescriptions. As a back-bench MSP from the Scottish National Party, I disagree with those people; however, I genuinely have no idea of your opinion on the matter. Is it still important to deliver free school meals and free prescriptions?

**Jim McCormick:** Your question goes back to what I described as the third way in which to tackle poverty, which is to drive down the cost of people's outgoings. The examples that you gave are important. Other examples are concessionary fares and free personal nursing care. There are a number of ways in which, by providing services at no cost, we can drive down the cost of people's outgoings.

The question is whether our objective is really to target people on the lowest incomes and those who are on the margins of poverty. If we take the

solidarity target into account, we are talking about people on the lowest 30 per cent of incomes, not on the lowest 20 per cent, so it is a slightly broader category than those who are currently in poverty. If that is our overriding objective, I suggest that we should target our investment as efficiently as we can. Clearly, if free school meals are available to all children in primaries 1 to 3, that policy is not targeted on low-income families who are in the greatest need. However, if our objectives are broader than just anti-poverty objectives—if they are about giving young children a good start to their nutrition, about removing any risk of stigma and so on—you may be led to support the policies that you mention.

Given the fact that about half the problem of poverty in Scotland concerns the in-work poor—people who are earning their poverty rather than just claiming it through benefits—I suspect that we need to design our safety nets more widely than just at the level of those who are right at the bottom, although perhaps not as widely as is proposed by the Scottish Government in the draft budget. There is a way to reconcile the different objectives; the way that is proposed is not necessarily the only or the best way when finances are as tight as they are.

I suspect that there will be a live debate in the years ahead about how generous our basis of entitlement is for other areas of investment. I am thinking of concessionary travel and free personal care, for example. There will be different debates about that, given that those universal services are based on age rather than on need or income. We should have a debate on the principles behind our objectives, in terms of whether we should target such services or whether we should have universal services. We do not yet have a clear rationale for determining when we target and when we take a universal approach. There are different reasons for doing those things. I said earlier that we should have a better rationale for deciding what we ring fence and what we devolve. Similarly, we should have a better justification for deciding when to target and when to take a universal approach.

**Bob Doris:** That is quite interesting—

**The Convener:** This is your last question.

**Bob Doris:** Okay.

Dr McCormick, you mentioned free personal care. If we were to withdraw universality from free school meals and free prescriptions, would the same logic lead you to withdrawing universality from free personal care? In other words, if targeting was applied to free school meals and free prescriptions, would that mean ending free personal care for all as well?

**Jim McCormick:** I do not think that it would. The priority is to decide on the best basis for investing in new areas of provision against a backdrop of tight public finances. We introduced free personal care and the national concessionary travel scheme because we wanted to promote access to services and mobility for all, irrespective of need and resources. The consensus at the time was that we should do that.

We should look at each example on a case-by-case basis depending on where we are in terms of public finances and priorities. The question then becomes, is it the most effective use of resources to extend what we have at the moment along the lines that are being suggested? Speaking personally, I am not convinced that it would be the best use of resources or the best way to target extra support for people who are having the toughest time. There might be other very good reasons to do it, but if we are considering the proposals specifically in terms of getting resources to those who are in the toughest of circumstances at the moment, I am not convinced that that is the best way to do it in the current climate.

**Bob Doris:** That is interesting; thank you.

**The Convener:** Yes, it is interesting. What you said goes to the heart of the committee's examination of poverty and the measures in the budget. Your opinion is that we are flatlining and facing reductions in the public spend, so we need to establish priorities. You said that however we commit to tackling poverty, it must be effective and that it should, without doubt, work well. I took those as tests, which brings us back to Bob Doris's question. Do a freeze in the council tax and introducing free school meals and free prescriptions meet the test of being anti-poverty measures? We can have a discussion about the longer term when we are not flatlining and facing having to reduce the public spend but, in these times, will spending that amount of money on those measures be effective in tackling poverty? The harder question then is: if that is not effective, what will be? Those measures account for large amounts of spend within the Scottish budget. If we took a more targeted approach, how would we do it better? When we have this discussion with the Cabinet Secretary for Health and Wellbeing, we could say that the Government could be spending some of that money on other measures and that that would tackle poverty more effectively than the proposed measures.

**Jim McCormick:** I will start with the point about council tax. Freezing the council tax was not an anti-poverty measure. It was to do with ensuring that households are not being taxed more when they are facing tighter household finances, and so on. If the objective is to tackle poverty, we should not freeze council tax. David Bell is on the record

as saying to the Finance Committee that that is regressive because it is worth more to people who live in top-rated bands.

Short of bringing in a new form of local taxation—whether based on income or property—we could apply differential rates of increase to different council tax bands. We could, for example, go ahead with an inflation-based increase for people in the top-rated properties and a freeze for those in all other properties. We could apply different rules to different bands; we do not have to have either a freeze or an increase across the board.

The real issue with council tax, however, is that council tax benefit has not been uprated in line with earnings, which has created a pernicious drag effect. More people on modest incomes—especially those on low pay—are being dragged into the net of paying full council tax year on year. They are, in relative terms, paying the highest proportion of their income in council tax of any household: more than the people at the top or at the bottom.

That should concern us if we are serious about doing something about people who are typically in low-paid jobs, trying to earn their way out of poverty, but finding that council tax benefit does not give them the support that they might have expected. In the long term, whether or not we freeze council tax next year or in subsequent years, there is a need to engage with the UK Government to sort out the basis on which we operate council tax benefit.

Similarly, abolishing prescription charges will be of greatest benefit to people on modest means—those who are in employment but on low earnings—who are at present paying prescription charges. However, in helping those people, we will of course be helping everyone else, and that is questionable if we are trying to target support. Other ways in which we could target the type of support that the abolition of prescription charges would offer would be to extend entitlement to free or discounted prescriptions to those who have long-term conditions. We could base the system on medical need, rather than simply saying that everyone should be entitled to free prescriptions.

I am saying, without expressing a firm preference, that there are different ways in which we can target our resources, without necessarily going down a route that perhaps made sense two years ago, in the context of the economy and public finance, but that does not make sense with regard to the next couple of years.

**The Convener:** You made the point that there is doubt around all of those policies as measures to tackle poverty. They do not meet your test, as you described it, that the programmes that we enact

and fund should, without a doubt, work well. There is doubt in your responses to all of those measures.

**Jim McCormick:** There are undoubtedly benefits that flow from those policies, but overall, because the policies are universal, the benefits are dispersed across the whole of society. People who have the least need and the most means will benefit from them as much as people who are not in that position. As I said, there may be good reasons for treating people in that way, but if we are about giving extra assistance to people who are in poverty—or, perhaps more important, those who are at risk of poverty or struggling to escape it—those are not the most effective ways to target support. It depends, again, on our objectives.

13:00

**Mary Mulligan:** I am conscious that you were in the room during at least part of the previous panel's evidence session. What do you think the impact of a reduction of 34 per cent in the affordable housing programme will be on tackling poverty?

**Jim McCormick:** That goes back to a point that I made earlier. About half of low-income households are in private housing and about half are in social housing. Consequently, all things being equal, roughly half of any reduction would fall on people whom we would expect to be either in or entering social housing. The ideal outcome would be for some emergency borrowing power to be agreed, which would enable us to continue to borrow forward from subsequent years if we were sure that the investment would be an effective anti-recession and anti-poverty measure. There is good evidence to suggest that that would be the case with this kind of programme. I am not a housing expert, but conclusions along those lines will be published by JRF later in the year.

Forgive me if the point was made in the early part of the previous session, but one way in which Scotland has diverged from the rest of Britain in the past decade is that we have not reformed the right-to-buy discount as England and Wales have done. Scotland continues to have a more generous right-to-buy discount that is not capped in the same way as the discount in England and Wales. That means that, effectively, more of our public funding is going into right-to-buy discounts than is the case in the rest of Britain. I am not sure whether that was anybody's conscious policy decision, but we have diverged from the rest of Britain by not reforming in the way that others have. The question is on what basis we wish to take forward that kind of policy, if we are about extracting as much value as we can for social housing.

**Mary Mulligan:** The previous Scottish Executive made changes to the right-to-buy policies and, as I am sure you are aware, the issue is being discussed in the context of a proposed housing bill. When the bill comes to the committee, we will take on board your comments about how we might go forward.

Central to many people's lives is the property in which they live. Issues around homelessness and the transient nature of some people's existence tell us that we should ensure that there is a housing supply to meet the demand. It is often the poorest and most vulnerable people who are most affected by the situation. You have said that we should consider bringing forward funds from future years, as happened this year with all-party support. However, do you think that the housing issue is so important that more priority should be given to it in the Scottish budget and that savings should be made in other places?

**Jim McCormick:** An interesting aspect of the draft budget is the development of an equality-proofing statement. There are moves to assess broadly the effect of the budget as a whole against the Scottish Government's ambitions in the achieving our potential, tackling poverty framework. That is a welcome step. However, when the budget—not the draft budget—emerges, it would be a positive step to have an even clearer statement of the way in which ministers believe that the budget will influence the anti-poverty objectives.

My view is that there is scope to take a more effective approach in next year's budget if we are about tackling need and getting vulnerable families through the toughest part of the recession, and beyond that the public spending stasis or downturn. There is a strong case for analysing the rest of the budget and identifying areas in which resources could be transferred into affordable housing. That should not be about just social housing; affordable housing can be made available across different tenures.

If you are about to ask me from where we should take those resources, I will sit on the fence and say that it would be premature to do that. However, I am pretty confident that if there is a will, it would be absolutely possible within the scale of the global budget to go a long way to making up the proposed shortfall compared with last year. It could be done through a combination of transferring resources from other budget heads and seeing whether additional borrowing powers could be negotiated with the UK Government. We should be optimistic about our ability to do something about the proposed shortfall before next April.



**Mary Mulligan:** I would not be so cruel as to ask such a question. I am grateful for your answer; thank you.

**Brian Adam:** Advice on benefits uptake is a key component in any anti-poverty strategy. We seem to have a plethora of different organisations, some statutory and some in the voluntary sector, that offer advice on a wide range of things—energy, housing benefit or whatever. Has the foundation done any research on how effective and efficient at increasing income the different strategies are? For example, has a comparison been made between the proactive approach that is taken by Macmillan Cancer Support and the traditional reactive approach in which if folk feel that they might be entitled, they might apply?

**Jim McCormick:** I am aware of individual initiatives being evaluated, such as the here to help scheme. Scottish Gas and British Gas invested in a major evaluation through the London School of Economics that led to the figure of a twentyfold return on investment. However, I am not aware whether there has been a good and recent evaluation of different income maximisation strategies. Perhaps we should recommend that the Joseph Rowntree Foundation invests in such research in the next year.

We can identify easily the parts of the benefits and tax credits system in which the take-up rate is significantly below the eligibility level. For example, there is an exceptionally low rate in relative terms of take-up of council tax benefit by older people. On the other hand, I mentioned the Northern Ireland approach to getting the pension credit take-up to be the highest in the UK. There are all sorts of bits of information across the system. If you are suggesting that we should have a comprehensive map of what is most effective for different groups, that is a good idea. Trying to improve take-up of pension credit among older people is quite a different proposition from trying to improve take-up of working age tax credits for a lone parent who has just started back at work. We must ensure that the messages and methods are right for the households that we are trying to target.

You are right that a huge amount of effort, imagination and energy is put in at local level to try to improve benefit take-up, but my lingering doubt is that there is a lot of duplication and inefficiency in all that local beaver-ing away. We could take a more strategic approach, as has happened in Northern Ireland, across a range of benefits. We could use the kind of administrative devolution that exists within the DWP and Jobcentre Plus, for example, to try to ensure that Scotland has the most effective model of take-up in the UK. Even if the powers to change the system itself are not

formally devolved, there is still a big challenge to make the most of the powers that are there.

**Brian Adam:** I hope that you will take that away.

**Jim McCormick:** I will do. It is a commitment.

**The Convener:** John Wilson will ask the last question.

**John Wilson:** I want to raise the issue of universal benefits. Free school meals and prescription charges were mentioned earlier. I am concerned about in-work poverty, which Jim McCormick has mentioned several times. Some people with an income do not realise that they are entitled to additional benefits. My colleague Bob Doris reminded me that when the free school meals pilots were run two years ago, people who had not previously taken the meals realised through the pilot that they were entitled to them. In certain local authority areas, uptake has increased. We must address the situation of people whose income is just slightly above the level at which they are entitled to benefits, as well as the situation of those whose income is below that level but who are unaware that they are entitled to benefits.

I would like to hear Jim McCormick's assessment of what is happening in Scotland at present. It would be fine to use the baseline of 1999 in trying to tackle the number of people in poverty, which the UK Government used. What does the Joseph Rowntree Foundation think is the potential for the number of people, and the number of children, in poverty in Scotland to increase over the coming period, as a result of the current economic situation?

**Jim McCormick:** The last question is probably the toughest of all.

It is right to say that there were beneficial consequences of the free school meals pilot. My daughter was in primary 1 when it was introduced and I can see some of the benefits that you mentioned. It is absolutely the case that benefits flow from what is being proposed. The more challenging question is whether we can secure those benefits in a more targeted way. Can we help that extra 10 or 15 per cent of people who are on modest incomes and may be on maximum tax credits and so on? Is there a better way to target support to them than taking universal approaches? That is an unresolved question, to which it is worth returning. There are also benefits in relation to administration costs from taking universal approaches. There are all sorts of benefits, other than cost, because, when all is said and done, a significant chunk of the budget goes to people who arguably have lower need and greater means. That has been a tension throughout the history of the welfare state in the UK and Scotland. We need to look at the issue afresh in Scotland.

13:15

You asked about trends in child poverty. Much of the progress that we have seen in the past decade was related to a higher employment rate among groups who previously had low employment rates, such as lone parents, but who were now moving into work and having the benefit of tax credits. Maximum uptake of tax credits had perhaps a bigger effect on helping job entry and retention than the minimum wage or earnings themselves, which in real terms have remained low for those groups. Those steps have to be maintained.

A challenge for the UK Government would be to better focus tax credits, rather than have a long tail of pretty well-off households that get some benefit from the system. Is there a better way to focus tax credits on the working poor? I think that there is, but whether there is the will to do that is a different question.

The JRF has done some modelling on trends over the next 20 years in relation to poverty of not just children and families, but older people. The biggest single factor is the choice that we make on uprating benefits and tax credits. If we stick with an ad hoc approach—usually with prices and occasionally with earnings—and we take into account the effect across a typical economic cycle, if such a thing still exists, all things being equal child poverty will rise significantly. That will happen if we do not take steps to have a consistent uprating basis that is in line with earnings and we do not learn the lessons of the last round of welfare-to-work programmes.

We did a lot in the UK and Scotland in the past decade around helping people into work and helping them stay in work more effectively than in the past. What we did not do was to break through the low-pay barrier and give people progression routes into better earnings and, therefore, out of in-work poverty. We need to find more effective ways of doing that in future, as well as sort out the basis on which we are uprating benefits and tax credits, if we are to ensure that a just and sustainable recovery means that we get back on track with reducing child poverty.

The optimistic way of looking at this is to say that we think we know what needs to be done. Whether there is a commitment from the funding to invest in these areas is a different issue.

**The Convener:** Thank you for your time, Dr McCormick. Your evidence is much appreciated.

As previously agreed, we will take agenda item 2 in private.

13:18

*Meeting continued in private until 13:39.*

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