

# **LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**

Wednesday 7 October 2009

Session 3

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### LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

25<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:

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

#### CLERK TO THE COMMITTEE

Susan Duffy

#### SENIOR ASSISTANT CLERK

David McLaren

#### ASSISTANT CLERK

Ian Cowan

#### LOCATION

Committee Room 6



## Scottish Parliament

### Local Government and Communities Committee

*Wednesday 7 October 2009*

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

### Decision on Taking Business in Private

**The Convener (Duncan McNeil):** Good morning and welcome to the 25<sup>th</sup> meeting in 2009 of the Local Government and Communities Committee. I ask members and the public to turn off their mobile phones and BlackBerrys.

Do members agree to take in private item 5, which is consideration of the committee's approach to the scrutiny of the Home Owner and Debtor Protection (Scotland) Bill?

**Members indicated agreement.**

## Budget Process 2010-11

10:01

**The Convener:** For agenda item 2, I welcome our witnesses: Nicola Sturgeon, the Cabinet Secretary for Health and Wellbeing; Mike Foulis, who is director for housing and regeneration in the Scottish Government; and Ann Thomson, who is head of social inclusion and voluntary issues in the Scottish Government. I invite the cabinet secretary to make brief introductory remarks.

**The Deputy First Minister and Cabinet Secretary for Health and Wellbeing (Nicola Sturgeon):** Thank you, convener.

As John Swinney made clear when he published the draft budget, we are dealing with a financial landscape that is fundamentally different from the one with which we were dealing just a year ago. We have seen the first real-terms cut in the Scottish budget since devolution.

The housing and regeneration budgets clearly illustrate the challenge for 2010-11. Members know that as part of our economic recovery programme we accelerated £120 million of affordable housing spend into last year and this year. That was welcomed by housing stakeholders, and I think that most people agree that it was right to accelerate the supply of affordable housing, to support employment in the construction industry and increase support for people who are at risk of losing their homes. In the current year, it means that there is record investment in affordable housing and that grants can be approved for a record number of affordable homes.

However, the accelerated funding must be repaid in 2010-11. The only way for us to increase housing investment further would be if the Chancellor of the Exchequer were to make more money available through further acceleration in 2010-11. The pre-budget report offers an opportunity for him to do that, and the Scottish Government has made its views on the matter clear.

I can confirm that over the three years of the comprehensive spending review period we remain committed to spending on affordable housing exactly the same as we planned to spend at the outset of the period. The profiling has changed as a result of the acceleration, but the total of £1.65 billion remains committed.

We all know that poverty has blighted Scotland for generations and continues to hold too many of our people back. The level of poverty is unacceptable. The challenge that is ahead of us is formidable, but I know that we are all determined

to meet it. The document, "Achieving Our Potential: A Framework to tackle poverty and income inequality in Scotland" sets out the approach that the Government and its partners in local government and wider civic society are taking to combat poverty. It is an ambitious approach and we have put efforts to tackle poverty at the heart of the economic strategy for Scotland. We are committed to supporting people who are in or at risk of falling into poverty, and we are making significant investment in income maximisation initiatives that provide advice and information.

It is critical that we also address the root causes of poverty. Our approach prioritises the long-term measures that are required to do that, particularly in relation to breaking long-term cycles of inequality in health and children's early years. The eradication of child poverty is one of our key priorities, and we are committed to continuing to work with the United Kingdom Government on the Child Poverty Bill, so that we can be galvanised in our commitment to eradicate child poverty by 2020.

I am more than happy to take questions from the committee.

**The Convener:** We appreciate your opening remarks.

**Mary Mulligan (Linlithgow) (Lab):** Cabinet secretary, given the changes to the financial landscape to which you referred, what do you expect will be the impact of a reduction of £178 million in the housing budget over the coming year?

**Nicola Sturgeon:** I will address the point and I do not want to be pedantic, but it is important to stress that the housing budget is not being cut and is being maintained over the three-year period. The Scottish Government's overall capital budget is reducing and, in light of the current financial challenges, the ability to maintain spend on housing over this three-year period is important. That spend is 19 per cent up compared with the previous comprehensive spending review period. I will return to the challenges associated with the reprofiling of the spend but, as I have already indicated, I dispute and will continue to dispute the notion that the housing budget is being cut.

The acceleration of funding into this year has resulted in record spend on housing, which has fed through into very high rates of approvals, starts and completions. In some areas, the rates are the highest that they have been for many years. That is good news, and it demonstrates the Government's commitment to housing. That said, I do not underestimate the challenge that is posed by the 2010-11 budget, given the reprofiling and the need to pay back the accelerated spending. We are working through the various factors that

will determine the target levels of approvals, completions and so on for 2010.

I repeat and strongly emphasise the point that the most direct and obvious way to mitigate the impact next year is to have further acceleration from 2011-12 into the 2010-11 budget. Given that the country is still in a recession, and given the current pressures on the private housing sector, I think that that is the right thing to do, and I would hope that other members will agree.

On the spend that we have outlined in the draft budget, the challenges that face us mean that we continue to put considerable emphasis on getting as much from our money as possible. We may come on to discuss issues around efficiencies later. I have discussed with the committee previously the Government's decisions on changes to the housing association grant rate. Not everybody agreed with them at the time but, this year, HAG is delivering more houses, which underlines its importance. A continuing emphasis on efficiency will be important, and that means efficiency in the housing budget—although there is also a requirement for the sector itself to be more efficient, which will enable us to get more houses from the money that we are investing.

In short, there will be an impact, as the budget stands, on the houses that we can provide out of our reprofiled spend next year, but the Government will continue to maximise that spend and the number of houses that we get out of it, and we remain hopeful that the pre-budget report will allow for further acceleration.

**Mary Mulligan:** Cabinet secretary, you are suggesting that the only way to resolve the situation is for the pre-budget report to bring forward yet more money from future years' spend. Could you not also have got a commitment from your Cabinet colleagues to increase spend to fill the gap this year from other services, showing a priority for housing?

You did not quite answer my question about what you think the impact of the reduced spending will be in the financial year 2010-11. Perhaps you could try again, using examples such as the number of completions and starts that you expect compared with what there has already been.

**Nicola Sturgeon:** Let me deal with both those points, starting with the 2010-11 budget.

As Mary Mulligan will appreciate, in our normal programme planning over the coming period—which is not different from the processes that we would go through in any year—my officials will be closely examining local authority strategic housing investment plans to determine the level of approvals in 2010, on the basis of the resources that we have available. I am not able to give you the figure for that yet, as we still have a process to

go through, but the level of approvals in 2010 will depend, first, on the level of resources that we have in 2010-11 and, secondly, to an extent on the indication of the level of resources that we will be able to commit in 2011-12.

I know that Mary Mulligan appreciates the fact that, in every year, we approve houses that are funded not out of that year's budget but out of a later year's budget. The level of resources in both those years will have an impact on the level of approvals next year.

I have some statistics for last year, which is the last full year for which we have numbers. The official statistics for this financial year are published in the quarterly statistics, and those that have been published show that in the first quarter of 2009-10—April to June—not only approvals and completions in the affordable housing investment programme but social sector starts and completions were significantly ahead of the same quarter last year. That is good news for this year, but we have record funding this year. I take Mary Mulligan's points about the impact next year, and I hope that she takes my explanation of how we deal with that.

Mary Mulligan suggested that I said that the only way to deal with the impact next year was further acceleration. I do not think that I said that it was the only way; I said that it is a substantial way in which to deal with the challenges next year. Clearly, we cannot go on accelerating capital indefinitely—we all appreciate that—but there is a strong argument that, while we are still in the current economic climate, we should accelerate further into 2010-11 rather than choke the recovery. On top of that, there is an onus on us—as there has been over the past two years—to get as many bangs for our bucks as possible. That means that we must continue to drive efficiencies, whether in the level of HAG, the steps that the sector is taking to become more efficient or the work that we have set in train on greater collaboration and making efficiencies through procurement. Efficiencies will be important as well.

Mary Mulligan's point about the choices that we make is valid and legitimate. If we spend money on one policy area, we cannot spend it on another. That is the nature of a fixed budget. The draft budget that we have proposed represents what we consider the right balance to be. As I said, in a climate in which our overall capital budget is being cut, the housing budget might have been cut as well, but we have not cut it. Over the three years of the spending review, the housing budget is being maintained. As I think some of the stakeholders said at the committee's previous meeting, that is a sign of the Government's commitment to housing. All members now have a role to play in the budget process by examining

the budget and deciding whether they want to recommend that money be taken from one budget area and given to another. The committee has a full part in that process.

**Mary Mulligan:** The stakeholders from whom we have heard evidence so far have been very concerned that, next year, the funding for housing will be reduced. Although they accept the cabinet secretary's statement about the £1.65 billion, when that budget was decided three years ago we were in a different financial position, so we have not seen the kind of commitment to housing that we might have expected.

Housing providers have raised a number of issues on infrastructure funding. One difficulty that they face in providing social housing is that they cannot now share costs with the private sector but the burdens to provide infrastructure still exist, which means that there is more pressure on the moneys that are available. Has the cabinet secretary given any thought to establishing some kind of funding for infrastructure?

**Nicola Sturgeon:** On Mary Mulligan's first point, I was not trying to misrepresent what stakeholders said or put words in their mouths. Their comments are in the *Official Report* for everybody to see. I know that people are concerned about the level of housing investment next year compared with this year. I am concerned about that, too. The point that I am making is that that is not an indication of a lack of commitment from the Government; it is a consequence of the decisions that we have taken—decisions that were designed to be flexible in light of the financial and economic climate—to accelerate money into this year. We cannot spend money twice, so spending it this year means that we cannot spend it next year.

I am not blind to the impact of that, which is why, as well as doing everything that we can within our responsibilities to drive more efficiency and get more out of that money, it is right that not only the Government but all of us should make a case for further acceleration in the present financial climate.

I agree entirely with Mary Mulligan's point about infrastructure. We are conscious of the difficulties in the current climate of securing infrastructure funding. The issue has been raised and discussed in the housing supply task force. We are considering a range of possible options that might help to ease the issue, and I hope that either Alex Neil or I will be able to say more about that in the near future.

10:15

**The Convener:** Alex Neil stated that the accelerated funding would

“deliver much needed affordable housing all the while safeguarding jobs, supporting the construction industry and keeping the economy moving.”

How many construction jobs did it support?

**Nicola Sturgeon:** You will remember that we accelerated £120 million, £40 million of which was accelerated into 2008-09. Of that money, £11 million was spent on land acquisition—some of the land is being used this year to support site starts—£8 million was used to support immediate construction, and £13.5 million was used for off-the-shelf purchases, which will have helped to secure jobs in the private building sector. Overall, our economic recovery plan is estimated to have supported or protected about 15,000 jobs. I will correct the figures later if I do not have them absolutely right, but I think that 5,000 of those jobs were protected specifically through accelerated funding not only in housing but across Government. From memory, about 2,000 of those jobs are in the construction sector.

**The Convener:** In evidence to the Economy, Energy and Tourism Committee last week, Michael Levack of the Scottish Building Federation pointed out that 8,500 jobs have been lost this year in the construction sector, on top of 20,000 the year before. He raised several issues. Like most of the stakeholders who come to the Parliament, his targets and ambitions are not aligned with what the Government has available to spend. He claims that the acceleration was not enough, that it has taken time to wash through the system, and that too much was spent on land acquisition and buying existing stock. As a result, he claims, the construction sector has not benefited.

Michael Levack also complains that the public sector work that is funded through public-private partnerships has nearly disappeared, which has had a dramatic effect on the industry. He finds it curious that economic intervention seems to be “scattered across” the Scottish Government’s directorates, and he said on the record that he has offered to speak to the Scottish Government about the issue. Have you spoken to him recently to discuss any of those issues?

**Nicola Sturgeon:** I have not spoken to Michael Levack personally, but I am pretty sure that colleagues in Government will have done so. We can provide details of those discussions. We are happy to speak to him and any other stakeholder. We have regular discussions with a range of stakeholders about what the Government is doing to support economic recovery and what more it could do.

The convener raised several points, so I will try to touch on them briefly. The fact that, in the midst of the deepest and worst recession for a long time, job losses have occurred in the construction sector

is deeply regrettable, but it does not in itself mean that the accelerated capital and the steps that the Government is taking through its economic recovery programme have not protected jobs. The job losses would have been higher if we had not taken those steps, and I have given statistics on the number of jobs that are supported through the economic recovery programme.

To return to the argument for further accelerated capital, modelling suggests that every £100 million of capital that we accelerated into the housing budget would support 1,000 jobs in the housing sector and perhaps 600 more indirect jobs. Everyone accepts that capital investment has a big role to play. The Government has never claimed—and no one would expect it to claim—that its capital investment, particularly the accelerated capital, will be able completely to plug the gap left by the downturn in private sector activity, but it has had an extremely positive impact in protecting and preserving jobs. That is why it is important for that activity to continue at this stage in the economic recovery.

I took the convener’s comments on public sector construction to relate to issues wider than housing. I know that there have recently been exchanges in Parliament about school building, but I will not get into any of that this morning as it is not the subject of this discussion. I simply think that we should pause and reflect on the social sector housing record and the public sector housing build supported by public sector funds. Last year, there were more starts than there have been since 1993, the highest number of completions since devolution, and the highest number of completions overall since 2000. That record amount of public funding-supported construction is good not only for the country’s affordable housing needs but for the economy.

As for the suggestion that economic recovery is scattered across every directorate, I think that it is absolutely right for every Scottish Government department, no matter whether it be health, the economy or whatever, to focus on the issue. However, we have tried to bring together our actions on economic recovery in our economic recovery programme, which very clearly sets out the range of actions that we are taking. Of course, we are more than happy to discuss those actions with all stakeholders and, indeed, we do so regularly.

**The Convener:** I hope that Mr Levack’s comments have been fed back to you, because he highlighted a number of areas in which the Scottish Government is clearly responsible for speeding up the process and, indeed, could do so. He mentioned PPP, for example, and said that certain public-private projects have been in the



system for three years without any plans to build houses arriving.

**Nicola Sturgeon:** But you will know—

**The Convener:** I will give you an opportunity to respond in a moment, cabinet secretary.

Mr Levack also commented on the Government's overarching approach to economic recovery. If there had been a cabinet secretary who was responsible solely for driving the economy and economic recovery, would regeneration in this year's draft budget have been cut by 72 per cent and housing by 30 per cent? I realise that you might not have been able to protect your whole portfolio in these hard times and in the hard discussions that I suspect were had with the Cabinet Secretary for Finance and Sustainable Growth. You might want to enlighten us on the debate that was had within Government on these matters, but obviously you had to give something up in order to defend the health service—and what was given up was 72 per cent of the regeneration budget and 30 per cent of the housing budget.

**Nicola Sturgeon:** I will deal in a moment with some of those points but, with respect, I think that when we discuss the budget we must be as accurate as possible, and it is important that I explain what lies behind some of the headline statistics that you have mentioned.

On your first point, John Swinney is the cabinet secretary with overall responsibility for economic recovery, and the economic programme that he is in charge of clearly and strongly indicates this Government's commitment. As it is not a secret, it will not surprise anyone to hear me say that the Government has limitations on its powers and resources to advance economic recovery. However, within our resources and powers, we recognise and take very seriously our obligation to do absolutely everything we can. We will continue to listen and, when we can, respond to suggestions from a range of stakeholders. I have not read Michael Levack's evidence to the Economy, Energy and Tourism Committee but I more than happy to do so and discuss with colleagues how we might take forward his suggestions.

As for what you have described as cuts in budgets, I have already dealt with the housing budget, which has been reprofiled, not cut. That is a statement of fact. That said, I have not shied away from the challenges that the reprofiling has posed for us for next year. In response to Mary Mulligan's questioning, I gave my thoughts on how we can deal with some of those challenges.

There is an important point to make about the regeneration budget. The figures for the regeneration budget in the draft budget reflect two

things. First, members will be aware that, as a result of last year's budget process, Parliament decided to invest £60 million in a town centre regeneration fund, which Parliament always intended and understood to be a one-off for this financial year. That resource, which was added to the regeneration budget for this year, does not appear next year. That is the explanation for the figures that have been given.

Secondly, the bulk of the regeneration budget supports the work of the four urban regeneration companies. The budget for next year, which is exactly what it was planned to be, simply reflects the investment and spend profile of those URCs over the comprehensive spending review period.

**The Convener:** You have previously mentioned funding for housing through the European Investment Bank. Will you comment on that?

**Nicola Sturgeon:** The European Investment Bank has said that £50 million of funding will be made available to registered social landlords in Scotland this year. That money is part of a total of £450 million, I think, that the European Investment Bank will make available throughout the United Kingdom. It is a significant chunk of money.

In the UK, the European Investment Bank works with the Housing Finance Corporation, which is its partner agency for distributing the funds. The overall agreement between them for the whole £450 million is due to be signed fairly soon, and the process of agreeing to award the money to RSLs in Scotland is well under way. We hope that the money will be allocated before the end of this year.

**The Convener:** Do we know how much the bid is for?

**Nicola Sturgeon:** Some £50 million will be distributed among RSLs in Scotland. The application process is still under way, so I cannot say how many RSLs will benefit, but it could be a few.

**Bob Doris (Glasgow) (SNP):** Michael Levack's evidence to the Economy, Energy and Tourism Committee last week has been quoted. He mentioned the lack of private finance initiative projects. I have been looking through the Scottish Parliament information centre briefing for the local government and communities budget, which states that there is

"£40m extra to fund existing Schools Public Private Partnership contractual commitments".

To what extent are PFI commitments constraining the Scottish Government's expenditure?

**Nicola Sturgeon:** They are doing so to a significant extent. I do not have the relevant page of the budget document in front of me, but the

requirement to make PFI payments will continue for a significant number of years and is increasing. Money that is required to make PFI payments is therefore not available in other parts of the budget for investment in new projects.

**Bob Doris:** It is important to put on the record that PFI projects do not represent money for nothing.

**Nicola Sturgeon:** Exactly. That point is very well made.

**Bob Doris:** The money must be paid back, and there are consequences of that in other parts of the budget.

Obviously, we want to scrutinise how the £120 million that has been brought forward has been used. You mentioned that £11 million has been spent on land acquisition and that money has been spent on construction. It is clear that that approach is working. In recent years—I refer to last year in particular—there have been record levels of completions and approvals. Front loading expenditure has therefore worked.

I would like to know about the money for land banking last year and the potential money for this year. One might expect that, if a housing association has money in a land bank and goes to the Scottish Government for a housing association grant subsidy, the HAG subsidy that it will receive will be less than it otherwise would have been, because a subsidy will already have been provided to bank the land in the first place. Can we get to the bottom of how that money has been used?

10:30

**Nicola Sturgeon:** Some £40 million of the £120 million was accelerated into 2008-09. Earlier, I gave a rough breakdown of that money—£11 million for land, £8 million for construction and £13 million for off-the-shelf purchases. The sharp-eyed among you will have realised that that leaves £7 million, some of which went to the home owners support fund and £2 million of which went to the Devanha project.

We cannot break down the £80 million for this year in that way because it was mainstreamed into the overall affordable housing investment project budget, so it is part of the mainstream allocations for registered social landlords. However, when we produce the outturn report for this financial year, the distribution between the various elements will be available for people to see. If you look at the outturn for the AHIP budget in the previous financial year, you can see that there is broadly a three-way split between land acquisition, construction and off-the-shelf purchases.

The other point to stress about land acquisition is that some land that was acquired through accelerated funding last year will be in use this year for site starts, so that spending is supporting economic activity.

On the HAG subsidy, members will—because they consider these things closely—understand the differences between HAG rate, HAG level, appraisal assumptions and the HAG subsidy rate. If an RSL makes a bid below the HAG subsidy rate, there is a streamlined and simplified process, but if they bid above it, there is a detailed appraisal of the application to ensure that we are getting value for money.

Because we know that the costs of construction and land acquisition have been coming down, we have been considering reducing the target for the HAG subsidy—I am talking not about the amount of money that goes to RSLs, but about the threshold figure that triggers the more detailed appraisal. That would enable such matters as Bob Doris has mentioned to be taken into account, as we determine the right level of subsidy.

**Bob Doris:** The important thing for me was that a housing association that has used part of the £11 million to bank some land that it would not otherwise have got will already have had a sort of subsidy, in that it got that land. I just hope that the efficiencies will work their way through the system and that that use of land acquisition money will be taken into account when the housing association seeks a HAG subsidy for a project.

**Nicola Sturgeon:** In that circumstance, the HAG subsidy could well be lower than it otherwise would, because the costs of acquiring the land were lower because of the opportunities of which the association was able to take advantage.

**Bob Doris:** You are on record as saying that you want to draw down money from 2011-12 to 2010-11 to support the construction industry, and you have received support for that stance from many people, including our witnesses last week, among whom were representatives of the Scottish Federation of Housing Associations. However, they told us that they work on three-year budgets rather than year-to-year budgets. It might therefore be beneficial in your discussions with the UK Treasury to seek to draw down money not from only one year ahead but instead to speak in the round. I am not suggesting that you go for a three-year drawdown, but there are ever decreasing benefits from drawing down that capital expenditure, so it might be good to talk to the UK Treasury about how it can be phased out. You might instead look for funding over three-year periods, which the SFHA and others would support.

**Nicola Sturgeon:** I take that point. I was about to be light-hearted and say that it will be a step in the right direction if we can focus on winning the argument for next year. However, the general point about three-year funding is well made, and everyone accepts the desirability of enabling people to plan ahead in that way. Obviously, as I said to Mary Mulligan, the level of approvals that we will be able to achieve next year depends partly on the money that we have next year and partly on the money that we will have the year after that, because of the way that housing investment is funded.

From our point of view, the more long-term certainty that can be created—or even long-term predictions that can be made—the better, which I know is important for the housing sector. Obviously, we are constrained by the fact that we do not have that certainty about future budgets, but that does not mean that I do not absolutely accept the point that you are making.

**Bob Doris:** We have talked about how many jobs have been lost in the construction industry. You said that the industry has been sustained, to a degree, so the figure could have been higher. How many jobs might be at risk if there is no drawdown from 2011-12 to 2010-11?

**Nicola Sturgeon:** I cannot put an absolute figure on that, but it is clear that there will be an impact. Given that I have argued that the record spending this year has helped to sustain employment, logic tells us that if we go from spending around £650 million on housing, as we are doing this year, to spending at the levels that are expected next year—I repeat that that is not a cut, because of the reprofiling—jobs will be at risk.

We know that we could, for every £100 million of accelerated investment in housing, support 1,000 jobs directly, and perhaps another 600 indirectly. That provides some quantification in human terms of what is at stake.

**Bob Doris:** More than 1,000 jobs could be put at risk.

**Nicola Sturgeon:** Not accelerating further capital into next year's budget will have an economic impact, including on jobs.

**Alasdair Allan (Western Isles) (SNP):** There has been discussion about unit costs. How does that affect the Government's policy on the balance between different types of social housing?

**Nicola Sturgeon:** Our overall objective is to get more efficiency out of the money that we invest, which is why we took steps to reduce the HAG subsidy rate and the level at which we subsidise affordable housing. We have had considerable success in that regard. The HAG subsidy level dropped to roughly £78,500 in 2008-09—it was

almost £85,500 in the previous year. The HAG subsidy rate, which is the percentage of unit costs that is met by subsidy, has gone down from more than 70 per cent to 60 per cent. We are getting more for our money. People in various areas have described the approach as a cut, but last year the subsidies delivered 400 additional houses. It is not a cut; it is about getting greater efficiency out of what we spend.

Members are aware that we took the decision to invest in local authority housing—to pump-prime local council house building, which was, I think, the first central Government investment in council housing for 30 years. The approach has been successful in getting us to a point this year at which we will have approved in the region of 1,300 council houses, which is a huge contribution to our overall targets and is good for Government, because the houses have been achieved at a much lower rate of public subsidy than goes to RSLs, for example. That is because councils can borrow and make a contribution. The £26 million—I think—that that we have allocated so far is not just supporting the construction of 1,300 houses, but is leveraging in about £120 million of borrowing to add to the overall pot. We will continue to consider how we can be more innovative and efficient and we will consider models that give us a bigger bang for our buck.

**Alasdair Allan:** In reaching decisions about unit costs, how much weighting is given to local variations in the cost of building?

**Nicola Sturgeon:** There is a fair amount. We set the HAG subsidy target and make assumptions that help us to determine the rate and level of HAG subsidy, and we look closely at local circumstances, which is why the subsidy that is given to a housing association in Alasdair Allan's part of the country, for example, might be different from the subsidy that is provided elsewhere. We take into account a range of factors that are sensitive to local variations.

**Alasdair Allan:** What room remains for efficiencies to be made through co-operation between RSLs and local authorities?

**Nicola Sturgeon:** There is still considerable scope for efficiencies. There is scope for us to drive more efficiency in the affordable housing investment programme. There is also scope for the sector to consider how it can be more efficient: I am sure that there is an appetite in the sector to do that.

We can see from the report "Social Landlords in Scotland: Shaping Up for the Future", which the Scottish Housing Regulator published this year, that turnover in the sector rose by 9 per cent, and operating costs rose by 12 per cent. That is clearly

not a sustainable position, so there is a real need to focus on efficiency.

Following the investment reform consultation, which sparked a lot of interest, we have set up working groups to work with RSLs and councils. First, they will consider the benefits of specialisation and collaboration in terms of quality and of how costs can be reduced. Many RSLs around the country are aware of the partnerships that are already operating between different RSLs, for example in Fife and the Borders. In those partnerships, one RSL can take the lead in securing development on behalf of a whole group of RSLs, and it is being shown that efficiencies can be delivered that way.

One of the working groups is considering how to achieve excellence and more efficiency in procurement and another is tasked with setting a standard for any RSL or council that wishes to receive subsidy to develop new stock. That will ensure that, in the future, subsidies will go to those who have the right expertise in order to achieve maximum efficiency in what they are doing.

The efficiency agenda is alive and kicking. It is not about “crude cuts”, as I have heard it described, but about ensuring that we get as many houses as possible for our investment, particularly in this tight financial climate. Given the need for affordable housing, that is absolutely the right way to go. I make no apology to anybody for continuing to focus strongly on that.

**The Convener:** There has been a bit of a debate on that point—you will have seen the evidence from last week. Everyone wants good value for the public purse. Are you convinced that the efficiency agenda for the housing associations represents where you want things to be? Some housing associations complain that they are using their own reserves to fund or subsidise some developments.

As you mentioned, about 1,500 local authority houses have been approved. How sustainable is that, given that there will be limits on the amount of land that is available and on the extent of local authorities’ borrowing powers? How many houses do you expect, on top of that 1,500, over the next three years, say?

**Nicola Sturgeon:** On your first question, we still have a long way to go with regard to efficiency, and I do not think that we are where we want to be. That is challenging for the sector, and it is challenging for the Government—efficiency drives always are—but the rewards, in the form of more housing, are attractive enough to make it essential. There is a lot that the Government can do, working with the housing sector, to make things even more efficient.

The convener’s second question about the council house building programme is a very good one. We have not yet taken any decisions about future years. We have allocated the first half—or slightly more—of the £50 million that we set aside to kick-start the council house building programme, and the remainder of that will shortly be announced. Beyond that, we have not taken any decisions; we have to consider the prudential borrowing capacity of local authorities as well as land availability and the appetite of authorities to do more. We will take all that into account in reaching decisions about the future. From experience, the decision to invest pump-priming money into council house building has been successful and has contributed greatly to the record number of approvals that I hope we can achieve this financial year.

**The Convener:** On the controversial issue of the reserves that RSLs and housing associations hold, are you still of the view that those are substantial amounts of money that could be released?

**Nicola Sturgeon:** The picture will vary among organisations. We know from the regulator that substantial sums of money are held by RSLs in reserves. In fairness to RSLs, a lot of that money is required for other purposes, such as meeting the housing quality standard. I am not suggesting that that money is just lying there doing nothing. However, it may well be that more of those resources could be put to work in delivering new housing. We continue to work with the sector to ensure that the resources that are currently available are being used as efficiently and effectively as possible. We are also considering as imaginatively as we can where new and untapped sources of finance might be available.

10:45

We have already spoken about the European Investment Bank funding and there might be other opportunities not only in the current climate but—if one listens to what is being said at the various party conferences—in the climate that we might face for years to come. That will get all the more important.

**The Convener:** Right on cue, David McLetchie has a question.

**David McLetchie (Edinburgh Pentlands) (Con):** Good morning, cabinet secretary. I have a few questions on targets for affordable homes, relative to what we have achieved so far in the three-year programme. As I read in your “Affordable Housing Investment Programme 2008-09 Out-turn Report”, we have managed to achieve 6,260 completions.

**Nicola Sturgeon:** There have been 6,220 completions according to my figure, but if you want to give us 40 more, I will take them.

**David McLetchie:** I am looking at table 5 on page 10 of your document, which says 6,260. We will not argue about the 40. The Government's overall target was to achieve 21,500 affordable homes over the three years from 2008 to 2011. By our different reckonings, that means that we have about 15,300 homes to go this year and next. Are you confident that that target will be met?

**Nicola Sturgeon:** Achievement of the 21,500 approvals over the three-year period remains our firm intention and ambition and we are working hard to try to achieve it. On the balance that you spoke about, our published target for approvals in this financial year is 8,100. We are confident that we will meet that target for approvals.

As I said to Mary Mulligan, we are still in the process of working out what a reasonable approvals achievement would be for next year, given the level of resources that we will have next year and the year after. I cannot put a figure on that right now, but we are working as hard as we can to achieve the 21,500 approvals. We have made good progress so far, but as everybody accepts, when we said that we wanted to achieve 21,500 approvals we were in a very different financial and economic climate to the one that we are in now. That number remains our commitment and we are working hard to achieve it, but it will be challenging next year because of the circumstances about which we have been talking. However, that underlines the necessity of taking the efficiency measures about which I have just been speaking.

**David McLetchie:** As I understand it, the Government's objective is to approve and consequently develop 21,500 affordable homes. Correct me if I am wrong, but that number will be a mixture of homes for social rent, for mid rent and for purchase through shared ownership and shared equity. If I understand the completions figures correctly, roughly 70 per cent of the 6,000-odd homes will be for rent and the balance will be for sale at affordable prices under low-cost equity schemes. Basically, that means that you have about 4,300 or 4,400 homes for rent. Shelter and SFHA tell us that Scotland needs 10,000 new affordable homes to rent each year. Does that mean that, on projections, the Government's programme will deliver fewer than half the homes for rent that those organisations claim we need?

**Nicola Sturgeon:** I will try to answer that in stages. First, I confirm that you are absolutely right that the 6,260 completions figure is the total in the AHIP budget. It includes houses for rent, shared equity and all the other things that you mentioned.

In 2008-09, there were 4,913 social sector new-build completions, if we take into account registered social landlords and local authority build that was supported by Government subsidy.

As for the guts of the question, which related to the 10,000 figure, I absolutely agree with Shelter and other stakeholders that we need to increase the rate of new build, which is what we are trying to do. However, there is a debate to be had about the target figure for the new-build social rented homes that we require in order to meet need. Shelter and other organisations say that 10,000 new builds are required to meet the homelessness target, but I suggest that although new build is part of that process, other factors are also important. It is not all about new-build supply; it is also about what councils do to prevent homelessness, better and more effective use of the private rented sector and so on.

As I say, there is a healthy debate to be had on that, but we are focused on ensuring that we meet the overall approvals target and that we increase the supply of new build for rent. I realise that I am about to enter territory over which we are not in complete agreement, but our proposed reforms to the right to buy are also intended to assist in ensuring that we have more homes available for rent.

**David McLetchie:** Yes. It is interesting that you have mentioned the right to buy. In the affordable housing investment programme, how many people are you aiming to help to buy their homes at a discount?

**Nicola Sturgeon:** As David McLetchie will be aware, last year and this year we invested £35 million in the home owners support fund. This year, there is also the local improvement finance trust programme and £60 million has been invested in the open market shared equity pilot which, according to my figures, will this year help 1,500 people to buy their homes.

**David McLetchie:** So, 1,500 people will be helped to buy their own homes with public funds. If your right-to-buy changes go through, how many people will be denied the opportunity to buy their very own affordable home in which they will have lived for many years?

**Nicola Sturgeon:** One person's threat is another person's opportunity. We have been discussing the need to increase the number of houses for rent, and I am the first to concede that there is huge pressure on the availability of such housing. Although the number of houses that are sold through right to buy has declined because of reforms that have already been made, something like 3,000 homes were still sold that way last year. The following estimates have to be treated with caution because of the change in the financial

climate but, if no change is made to the right to buy, there could be between 46,000 and 84,000 such house sales from 2012 to 2022. We estimate that our reforms could reduce sales by about 20 per cent, which means that over those 10 years we would retain an extra 10,000 to 18,000 homes and make them available for people to rent. I think that that is important, given the current climate and pressure on rentals.

**David McLetchie:** On the one hand you are introducing a programme that in one year will give 1,500 people the opportunity to buy their homes with a measure of public subsidy and support and, on the other, your reforms to another programme will—according to the upper figure that you have mentioned—deny 1,800 people the same opportunity. As a result, the net increase in affordable home ownership in Scotland will be 300.

**Nicola Sturgeon:** Our objectives are to ensure mixed housing tenure and to strike the right balance. I sense—in fact, I am sure—that I do not agree with David McLetchie's way of looking at the situation. We think that it is right in certain circumstances to help people to get a foot on the housing ladder, which is why we are introducing the open market shared equity programme. I do not think that that is inconsistent with the belief that when we invest large amounts of public money in building new houses for social rent we should not undermine the impact of that investment by allowing those houses to be sold off.

Regardless of the fact that some people can get on the housing ladder with a bit of help, which is a good thing to help them to do, there are still people for whom that is not possible and who need access to homes for rent. That is why, if we invest subsidy in building homes for rent, we should protect them for rent and not allow them to be sold off so that they are unavailable for rent in the future. That approach is entirely consistent and adds up to a housing policy that is about mixed tenure and about ensuring that we get the balance right within each tenure.

**David McLetchie:** We will debate the right to buy when the Government produces its plans on that. I simply observe in passing that, as a result of the right to buy on council estates, there is now more mixed tenure in Scotland than there ever was before.

**Nicola Sturgeon:** Yes, but fewer houses are available for social rent, and that is a significant problem.

**David McLetchie:** Yes, but there are no fewer homes for working people to live in, because they were not demolished; instead, they were improved. Anyway, that is another issue.

**Nicola Sturgeon:** Sure, but if people cannot afford to buy the houses, they cannot live in them.

**The Convener:** We will deal with that when we consider the forthcoming housing bill, as Mr McLetchie said. You may ask your final question, Mr McLetchie.

**David McLetchie:** It is about delivering the programme. We talked about accelerated funding and I think, cabinet secretary, that you said in response to an earlier question that you hoped that land acquisition this year might lead to actual building starts next year. I put it to you that that is a bit optimistic, given the evidence that we have received from housing associations that there is about a three-year period from start to finish. They have to get the land, get the planning consents, do the design, carry out the tendering process, do the procurement and then get the diggers in before they reach the stage at which a house is completed and the keys are handed over. Based on experience, three years is a more reasonable timescale for that. Is there evidence that housing associations are accelerating the development process? The Government is accelerating the funding, which is fine, but are housing associations accelerating the timescale from start to finish?

**Nicola Sturgeon:** From reading the *Official Report* of the committee's previous meeting, I know that some stakeholders pointed out that the process can take three years—you are right about that. However, it is important to say that the land acquisition part of the process does not always come at the start and that it can come later. Partly through the accelerated funding, we have accelerated the land acquisition process. There is evidence that land that was acquired last year through accelerated funding might be in use for site starts this year. We will look for more detailed evidence on individual projects that we can provide to the committee to help to illuminate that point.

**The Convener:** From a different perspective, Shelter's written evidence—I am sure that if you have not read it, your officials will have—stated that the need to provide rented accommodation means that the low-cost initiative for first-time buyers—LIFT—and other opportunities for people to purchase homes and get on the first rung of the ladder should not be the priority, and that the £35 million should be shifted. What is your view on that?

**Nicola Sturgeon:** We have not taken final decisions about that for next year. You will get a mix of opinions on that issue, and none of those opinions will be invalid.

**The Convener:** I am just testing the evidence.

**Nicola Sturgeon:** Exactly.

To be clear, the £35 million is for the home owner support fund, which is to help people to avoid losing their home and to support mortgage to rent and, to a lesser extent, mortgage to shared equity. In the current climate, it is right that we continue to support people who are in that situation. The open market shared equity pilot was envisaged originally as a pilot, but we decided to extend it throughout the country and to increase the funding, so £60 million has been invested in that this year. However, we have not yet decided what we might or might not invest in it next year. In coming to a decision on that, we will take into account the views that you mention.

**Patricia Ferguson (Glasgow Maryhill) (Lab):** Given that we are fast approaching 2012, when the homelessness target should be achieved, are you comfortable that we are moving in the right direction and that the target can be met? What measures in the budget have been proposed particularly to achieve the target?

11:00

**Nicola Sturgeon:** In short, the 2012 homelessness target has always been challenging and remains so. We remain committed to it—there is absolutely no question about that—and are confident that we are making progress towards achieving it. As you will be aware, we established the 2012 steering group, which is made up of the Government and the Convention of Scottish Local Authorities, to monitor progress towards the target, to ensure that good practice is exchanged and to ensure that every step that can be taken to advance that is being taken.

The homelessness statistics suggest that, although we still have a lot of work to do, things are moving in the right direction. Recent statistics showed that more than 80 per cent of homelessness applications are now assessed as priority, which is an increase on the level in 2007-08, and that 14 councils had reached or exceeded their 2009 interim target. A further five councils have since reached or exceeded that target and we are working with others to ensure that they make the same progress.

The budget for homelessness relates closely to discussions on the AHIP budget. As much as possible, we try to target resources for new build to the areas of highest need. Through the remainder of this year, we will consider how to allocate the AHIP budget for next year to different parts of the country. How close different areas are to meeting the homelessness target and where the highest need is will be factors in directing that funding.

**Patricia Ferguson:** Are there any parts of the country where that is a particular issue and where efforts have been made to divert budgets?

**Nicola Sturgeon:** I do not have the breakdown of local authorities in front of me to say which have made better progress than others or where particular challenges are, but we can easily provide the committee with that information.

**Patricia Ferguson:** That would be helpful. Does the number of new houses that are being built include some housing that is reprovioning and not new as such? Houses come to the end of their natural lives and have to be replaced. In many areas, multistorey flats are undergoing phased demolition. Will you talk about that? Are there figures that demonstrate the breakdown?

**Nicola Sturgeon:** I can provide those figures. I do not have them in front of me, although they are probably deep in the outturn report. Given where we both come from, you know as well as I do that there is a live debate in Glasgow about the future of multistorey flats. Generally speaking, HAG subsidy can support reprovioning and refurbishment as well as new build and, as we would with any application for funding, we would consider any project on its merits.

To return to the point about trying to get as much out of our budget as we can, there is a strong and increasing case to be made for considering whether we can bring back into use houses that, in previous years, might have been demolished. There is a big appetite among developers and people in the sector to do that.

**Patricia Ferguson:** It would be helpful if we could have the breakdown.

**Nicola Sturgeon:** I am more than happy to provide you with it.

**Jim Tolson (Dunfermline West) (LD):** In evidence to the committee, the Scottish Federation of Housing Associations suggested that a rolling infrastructure fund should be established to help the private sector and the RSL sector improve and increase the quality and availability of housing. What thought has the Government given to that? Does it intend to implement that as part of achieving some of the key targets on which we have touched?

**Nicola Sturgeon:** I am not sure that I can say much more than I said in response to Mary Mulligan's point about infrastructure except that I agree with the thrust of your question. Given the changes in the economic climate, it is much more challenging to get infrastructure funding for housing developments than it was, for reasons that we all understand. We are acutely aware—and, if we were not, would be reminded regularly by many of our stakeholder partners—of the need

to consider innovative ways of unblocking some of the infrastructure blockages. We are actively considering that at the moment. I cannot provide more detail to the committee on that today, because we have not taken decisions on it yet, but I hope that I will be able to do so in the not-too-distant future.

**Jim Tolson:** I hope so, too, and that there will be more flexible ways of financing and keeping people in their homes. I do not know whether you can add anything about that. We have already touched on the key points.

**Nicola Sturgeon:** I am not sure that I can add to what I have already said, but I note and understand the committee's interest in the matter.

**The Convener:** The committee agreed to focus on housing and poverty during its evidence-taking on the draft budget, and we will now move on to questions about poverty.

**John Wilson (Central Scotland) (SNP):** Good morning, cabinet secretary. I welcome your opening comments on the Scottish Government's commitment to tackling poverty, particularly child poverty, but I am concerned about the economic situation, to which you also referred. We are potentially looking at increased unemployment and at other aspects that will impact on the Scottish Government's ability to meet its targets for tackling poverty. More important, those things may prevent the child poverty targets that the UK and the Scottish Governments have set from being met. In your opening statement, you said that measures such as income maximisation would be applied. How do you maximise income when people are facing redundancy and the loss of income?

**Nicola Sturgeon:** That is a big, wide-ranging and important question. I will do my best to talk about as many strands of it as possible.

I reiterate our commitment to the child poverty target. I think that this committee will deal with the UK Child Poverty Bill, which, members will be aware, enshrines the target in statute. I will soon be back before the committee to talk about a legislative consent motion on that bill. I think that everybody accepts that, given the economic climate, things will be more challenging, but we must redouble our efforts and find out where we can make the biggest impact.

Your point about people losing their jobs relates to our earlier discussions about the Government's economic recovery programme and what we can do to try to protect and preserve jobs. We have an obligation to do that within the limits of our powers and resources. We also have a responsibility to do what we can to improve employability and skills and a range of work and investment is going on. We must acknowledge, however, that various aspects of that lie outwith our powers and that the

Government must work as closely as it can with the UK Government to ensure that there is a joined-up approach.

Where we can make a difference through the budgets that we have to spend we are funding projects on income maximisation and we have put a lot of emphasis on ensuring that people are, first, aware of and, secondly, claiming the benefits to which they are entitled. Obviously, we want people to be in work where that is possible, rather than to claim benefits, but there is a lot that we can do to increase incomes by ensuring that people, whether they are pensioners or are out of work, access what is available to them. We are involved in a range of work on that.

I was struck by what Jim McCormick said during the committee's previous meeting about the different things that impact on poverty. Increasing wages and increasing incomes by ensuring benefit maximisation are two measures, but reducing outgoings for people who are in poverty is also important. I appreciate that there is a healthy debate about such matters, and that is where the Government's policies on freezing the council tax, free school meals and abolishing prescription charges come into play—they are about alleviating the burdens on people who already find things difficult. We are involved in a range of work, but our powers are limited and that is why the joint work on poverty with the UK Government and COSLA is important to achieving our potential.

**John Wilson:** I am pleased that you referred to last week's evidence by Jim McCormick. He said that the provision of free prescriptions and free school meals did not target directly those in poverty, and that other measures could and should be put in place to tackle poverty at its source. What would be your response to that?

Further, although you have said that work is a route out of poverty, the alarm bells are beginning to ring now, as more and more evidence comes in that people who are in work might also be in poverty. How do we approach the problem that, by pushing people in the direction of employment, we might be forcing them into greater poverty?

**Nicola Sturgeon:** As I said in my opening remarks, we should do what we can to mitigate the effects of poverty, but the long-term difference will be made through what we do to attack the root causes. That is why other work across Government, such as the early years strategy and the report on health inequalities, is important. The work that is being done in those areas is concerned with a much longer term than other work and does not bear fruit immediately, but it is designed to deal with some of the underlying causes of poverty.



You are right about in-work poverty. I do not have the correct statistic at the front of my mind, but the proportion of children in poverty who are living with at least one working parent is significant and, I think, increasing. Obviously, issues such as the minimum wage are reserved to the UK Government, so the Government needs to continue to lead by example in relation to public sector pay. For example, there has been a focus not only on increasing pay for the NHS workforce overall in Scotland but on disproportionately increasing pay at the lower end of the scale. All that is really important.

We could probably sit here for the rest of the day and debate universal versus targeted benefits. I am sure that each of us has thought long and hard about the issue over many years. I have come to the conclusion that I am not on one side or the other of that argument, because I think that it depends to some extent on which benefit you are talking about. There is a case for targeting some benefits but, for others, a universal application is much more powerful. You have to judge each case on its merits. I know the views that are sometimes expressed about policies such as prescription charges, but what we are doing on prescription charges will help something like 600,000 people on low incomes, which means that the policy is having a real impact on people at the lower end of the income scale. That is one of the many reasons why I think that it is the right thing to do.

**Mary Mulligan:** Have you thought about freezing the council tax for the lower bands, which would help those who are more in need, rather than having an across-the-board council tax freeze?

**Nicola Sturgeon:** Our draft budget involves a total freeze on council tax, which demonstrates that that is our preferred option. We think that that is the right thing to do because, for 10 years, a range of people on low incomes but above benefit levels—pensioners and so on—had been under the cosh in terms of council tax increases. There were increases of 60 per cent in the period of the previous Administration—or 100 per cent, if you count the last couple of years of the Tory Government. It is right to give people across the board relief from council tax increases, and it has become even more right to do so in the current financial climate.

11:15

We are in the draft budget process. The draft budget is not the final say; the Parliament will have the final say on the budget. Every member of the Parliament and every committee is entitled to suggest changes. In its draft budget, the Government recommends the decisions that we

think are right. I have set out what I think, but if members of the committee or other members think otherwise I am sure that they will suggest amendments. In general, members who suggest changes must say where the money would come from, but that does not apply to the suggestion that you made, which would reduce the amount that would be spent.

**Mary Mulligan:** I was interested in whether the issue had been considered. I understand that the outcome of your considerations is what is before us in the draft budget. I accept what you said, so I will move on.

When the Minister for Housing and Communities, Alex Neil, spoke to the committee about the town centre regeneration fund, which had a budget of £60 million, he said that there had been bids that totalled around £150 million for the first tranche of £40 million. That demonstrates that there is a need out there. Why has the Cabinet decided not to go ahead with the fund this year?

**Nicola Sturgeon:** We could answer that question in a variety of ways. I could ask why, if there is such a need out there, we were the first Government to decide to go ahead with a town centre regeneration fund—

**David McLetchie:** Eventually.

**Nicola Sturgeon:** I accept the role that the Parliament played in ensuring that we had the fund. Let us accept that the fund is a good thing that will benefit communities throughout Scotland, including an area in my constituency and areas in committee members' constituencies.

When £60 million was allocated to the fund in the budget discussions last year, it was always understood by the Parliament that it was a one-off commitment. As I said, no doubt we will discuss such issues in the context of the budget's passage through the Parliament. If it is the Parliament's will that there should be further moneys for a town centre regeneration fund next year, that will happen, but the people who argue for the fund will have to say from where in the capital programme that money will come. Members should remember the overall climate in which we are operating. We have a capital budget that is £129 million less than we thought that it would be, because of the Westminster cut. We cannot do everything; we must prioritise. That is the process that the Parliament will go through.

**Mary Mulligan:** I remind Mr McLetchie that his proposal for a £20 million town centre regeneration fund was unambitious. I welcomed the allocation of £60 million, although my constituency has not yet benefited from the fund.

**Nicola Sturgeon:** There is still hope.

**Mary Mulligan:** There is indeed and I look forward to the beginning of November.

There was £60 million for the fund in this year's budget. Whether or not people understood that it was one-off funding, the money was there and is now going somewhere else—

**Nicola Sturgeon:** No, it is not, because our budget next year is £129 million less than we thought that it would be, so we have to reduce our commitments. We have taken decisions that will protect the health budget from the implications of the capital cut.

You rightly challenged me on the amount of affordable housing investment for next year. Are you now telling me to find £60 million for a town centre regeneration fund for next year? If so, do you want me to take that money out of the affordable housing investment budget, although you have asked for more money for that budget to be found from other sources?

Every member of the committee can tell me where they want to spend more money. That is entirely legitimate; it is part of the function of the committee. However, there is also an obligation to tell me from which bit of the budget the money should come, so that we can have a reasonable discussion. It is not sensible to say, "Put more into affordable housing. Put more into town centre regeneration", while failing to say where the money should come from and ignoring that we have 130 million quid less than we thought that we would have.

**Mary Mulligan:** But you are saying that you will take £173 million out of the affordable housing programme and £60 million out of the town centre regeneration fund. We are continually being faced with cuts in the budget—

**Nicola Sturgeon:** If I can respond—

**The Convener:** I will ensure that you have the appropriate time to respond.

**Mary Mulligan:** That is why I wanted to know why, when it was clear that the demands were there, your priority was not town centre regeneration funding, and what your priority would be instead.

**Nicola Sturgeon:** May I respond now, convener?

**The Convener:** Certainly.

**Nicola Sturgeon:** Apologies for interrupting.

**Mary Mulligan:** Accepted.

**Nicola Sturgeon:** Thank you.

We are going over old ground here. The housing budget is not being cut. The £173 million is being spent this year. For all that we may have some

political disagreements, we will surely agree on the fact that, in this world, one cannot spend money twice. The money is being spent this year and is therefore not available to be spent next year.

Mary Mulligan cannot just gloss over the fact that our overall capital budget for 2010-11 is £129 million less than we had previously been told it would be, because of the efficiency savings and the cut in the English health capital budget made by the Westminster Government. We cannot go on spending money on things without taking any account of the money that we have available to spend.

In the course of the meeting, Mary Mulligan has asked me to spend more money on the affordable housing programme. I understand the reasons for that. She is now asking me to spend more money on the town centre regeneration fund programme. Again, I understand her reasons for doing that. My point is simply that that money has to come from somewhere. If you want to suggest where else in the capital programme we should take that money from, we can have a reasonable discussion. However, we cannot spend money that we do not have.

**Mary Mulligan:** That is your decision, cabinet secretary.

**Nicola Sturgeon:** Actually, it is Parliament's decision now.

**The Convener:** Obviously, and what the committee says in its report will be a decision for the committee. We will take into account not only Mary Mulligan's view but the evidence that we have heard from stakeholders, the cabinet secretary and others.

**Jim Tolson:** I am sure that the cabinet secretary will agree that when it comes to poverty—whether it is in her constituency, my constituency or anywhere else in Scotland—our regeneration areas suffer particular blight, according to socioeconomic indicators such as high unemployment. There is a real need to lift those areas, yet the Government has reduced the regeneration budget from £118 million in 2009-10 to just £33.5 million in 2010-11—a massive 71.6 per cent cut. Is that not hitting hardest the people who most need our help?

**Nicola Sturgeon:** First, I gave information on that in response to a question from the convener. As we have just discussed, the change in the regeneration budget is largely down to Parliament's decision to have a one-year town centre regeneration fund for this year; therefore, in this year's budget that is reflected in the regeneration budget. However, because that was a one-year commitment, and we are not doing it

next year, that money does not appear in the regeneration budget.

As Jim Tolson knows—and as I have already said—the regeneration budget supports the work of the four urban regeneration companies. What is in the draft budget is completely unchanged from the figures that we published in the 2009-10 draft budget for next year. It simply reflects the anticipated profile of spend and investment by the URCs. You will appreciate that for reasons that we have been discussing in the context of housing, to do with land acquisition, those companies do not spend money uniformly year in, year out. They spend more in some years than in others, and their anticipated profile of spend is as reflected in our budget. It is misleading to look at the figures and equate that to a cut in the regeneration budget. The reasons for the regeneration budget figures are the ones that I have just given.

**Jim Tolson:** I still call it a cut, although I accept your first point about the bulk of that money coming to the town centre regeneration programme. However, the decision about where the money comes from is a decision for you and your Government. I suggest that that decision has impacted particularly adversely on the people in our society who need our help the most.

**Nicola Sturgeon:** With respect, the town centre regeneration fund was not originally planned for this year's budget—it is an addition to the budget. From experience in my constituency, I know that the fund will have significant benefits that were not anticipated at the start of the financial year. That is an unalloyed good thing, with no downside.

You are right to say that it is for the Government to decide where the money comes from. That is why we have made a series of decisions and submitted a draft budget. The next stage of the process involves not just the Government, but all of Parliament; I mean that consensually. Anyone who wants to argue for more funding in one part of the budget is absolutely entitled to do so. However, given that the budget is fixed, they also have a responsibility to say where that money should come from. I understand the arguments for having a budget for a town centre regeneration fund next year, but if people think that we should do that, they must say what other bits of the capital programme they would not fund in order to fund it.

**Jim Tolson:** The cabinet secretary may want me, Mary Mulligan or other members to do her job for her, but it is the Government's responsibility to make decisions.

**Nicola Sturgeon:** We have set out our decisions in the draft budget. It is for Parliament to decide whether it agrees with them or whether it wants to recommend changes. If it wants to

recommend changes, it must deal with both sides of the equation. Of course it is the Government's job to make decisions. We have done that in the draft budget, which is the collective expression of our priorities—where we think that we need to spend money.

**The Convener:** I am sure that the cabinet secretary and her colleagues are aware that, even if the fund were to continue, there are limitations on how it could be spent. The regeneration game is long term. We and other committees have been told in evidence that funding was allocated in July and must be spent by the end of the financial year. That limits what can be done.

**Patricia Ferguson:** In the draft budget, the fairer Scotland fund is rolled up in the local government allocation. Are you completely confident that, although that budget will not be ring fenced, it will still be used for the purposes for which it was intended? In your discussions with local government about the concordat—your historic or otherwise agreement—will you make provision for any special mechanisms to secure the money absolutely for those purposes?

**Nicola Sturgeon:** You make an important point. It is in the interests of all of us that this spending has the impact that we want it to have. The rationale for removing ring fencing and mainstreaming the money into overall budgets is to enhance the autonomy and flexibility that community planning partnerships have in spending it. The idea is that they will use the entirety of their mainstream funding to ensure that they are meeting the objectives of the fairer Scotland fund.

The specifics of your question are important. Although ring fencing is removed in the 2010-11 budget, all community planning partnerships have made a fairer Scotland fund allocation totalling £145 million—the amount that would have been ring fenced. When it comes to monitoring, single outcome agreements and, more important, the annual reports on those agreements will be crucial in ensuring that the money, with the overall resources of community planning partnerships, has the desired effects. The annual reports on the single outcome agreements for 2008-09 have been submitted and are being analysed. We are looking closely at those reports, which will be published in due course, to ascertain what impact the fairer Scotland fund has had. The annual reporting process will remain an important way of ensuring that the money, albeit no longer ring fenced, continues to have the impact that we want it to have.

**Patricia Ferguson:** When Mr Maxwell was in your ministerial team, he announced allocations for local authorities throughout the three-year

period. Are those still the amounts that will be allocated to local authorities?

**Nicola Sturgeon:** Yes.

11:30

**Patricia Ferguson:** That is interesting.

On the energy assistance package, I, among others, was intrigued by a recent advertisement in the *Official Journal of the European Union* inviting tenders for the home insulation scheme. The contract was for a £7.8 million scheme; however, I thought that the total for the home insulation scheme was £15 million. I simply wonder what the other £7.2 million is being spent on.

**Nicola Sturgeon:** After our exchange at last week's First Minister's question time, I have written in some detail to Mary Mulligan on this matter. She might not have received the letter yet—I do not think that I have it front of me myself—but I certainly signed it in the past few days.

The £7.8 million figure quoted is for the procurement of insulation measures and so on. Among the other figures that have been mentioned with regard to the home insulation scheme—which, though related to the energy assistance package, is separate from it—£5.5 million has been quoted for administrative costs. However, that figure actually covers making door-to-door visits, raising awareness of the scheme, seeing who will benefit from it and signing people up; in other words, it is for delivering the programme. The scheme's administrative costs, which are the usual costs for staffing, information technology and so on, are £623,000 and amount to 4 per cent of the overall available grant.

It might be helpful if I copy my letter to Mary Mulligan, which sets out the complete background of and figures for the procurement, to Patricia Ferguson.

**Patricia Ferguson:** Sure. So the management element and the others that you mentioned are not part of that tender package.

**Nicola Sturgeon:** I think that that is the case.

**Patricia Ferguson:** I was also intrigued by Alex Neil's comment to a colleague that the applications of less than half of those who were surveyed for stage 4 of the energy assistance package had been successful. Why is that?

**Nicola Sturgeon:** I am looking into that at the moment. As you are aware, a major advertising campaign for the energy assistance package is under way, and we are working hard to increase the number of applications to the programme and to ensure that calls are translated successfully into

measures. I will certainly share with the committee any future findings or reflections on the matter.

So far, more than 12,000 people have been helped in the various stages of the energy assistance package, and we are working hard to ensure that everyone who can benefit from it knows about it. We certainly continue to invest significant sums of money in the package this year and next year. I am happy to share with the committee a breakdown that I have of the applications at different stages of the programme and the number of people who have been helped at each stage.

**Patricia Ferguson:** I realise that there are different stages to the package, but when you say that 12,000 people have been helped, what exactly do you mean by that?

**Nicola Sturgeon:** The benefits checks that we carry out at one of the package's early stages have resulted in a total increase in income of nearly £400,000 or an average of £1,300 per person. Moreover, there has been a total reduction in fuel bills of £45,000 or an average of £150 per person and a further £3 million reduction in bills—or an average of £5,000 per person—as a result of energy efficiency measures. That significant work is helping a lot of people, but obviously those statistics show what is happening at a particular point in time.

We are halfway through the package's first year and it will be important to assess it at the end of its first full year, given that we are in the process of ensuring that people are aware of it and its different levels of help. The package is beginning to have an impact and it has the potential to have more of an impact. Just to chuck some more numbers into the pot, I point out that the figure for central heating systems that have been installed so far, in this financial year, is 3,600; some of those are legacy installations under the old central heating programme.

**Patricia Ferguson:** I have one more question on that. Given the amount of detail that you have, I am surprised that you—I do not mean you personally, cabinet secretary, but your team—do not know why only half of those who apply for stage 4 are successful. Perhaps waiting until the end of the first year is not the right thing to do. I would have thought that you would want that information as soon as it is available.

**Nicola Sturgeon:** Sorry, perhaps my answer was not entirely clear. From the detail that I have given you, I hope you accept that we are not simply waiting until the end of the year. We are monitoring the success of the programme carefully, on a month-by-month and week-by-week basis.

On the specific point about the number of people applying for stage 4 measures and the number getting them, a point-in-time argument applies. The member referred to an answer by Alex Neil to a parliamentary question. It is not the case that all the people who were mentioned in that answer as not yet having stage 4 measures installed will not have them installed. Some of them will still be going through the process, from the application to the installation of measures.

**Patricia Ferguson:** That certainly was not how I read Mr Neil's answer, but we can look at it again, no doubt.

**Nicola Sturgeon:** Okay—I will read it again, but that is certainly my understanding. We will clarify any remaining questions that you have on the issue once you have read the answer again.

**The Convener:** For clarity, and while we are chucking around figures, on the 3,000-plus central heating systems that have been installed, if we take out the legacy figures, how many remain?

**Nicola Sturgeon:** I do not have that figure with me, but I can provide it for the committee. It is a moving feast, so the figure moves every week. I do not have the figure for this particular moment in time.

**The Convener:** Can the officials help? Is it under 200 or under 500?

**Nicola Sturgeon:** We do not have the figure with us, but we can get it for you. From memory, in the most recent answer to a parliamentary question on the issue, the figure was 173. However, the figure is moving all the time, so it will have already moved on.

**The Convener:** I understand that. What is your estimate of or target for the number of installations? I am trying to find out how far away we are from the expectation. At 173, how far have we got to go?

**Nicola Sturgeon:** We are not setting specific targets for every stage of the process. The energy assistance package is a different approach from the central heating programme that went before it because it deals with people's energy inefficiency and fuel poverty in a holistic way. Obviously, people will be helped at different stages. We are investing £45 million a year in the programme, and that is intended to lever in additional funding through the carbon emissions reduction target—CERT—scheme. I am not saying that, by such and such a date, we will have done X number of people at each stage. We will assess the programme in its entirety at the end of the year.

**The Convener:** I presume that the people who work with you, when working out the figures, would at some stage have estimated the number of installations that would take place in the year.

**Nicola Sturgeon:** That depends to an extent on the different bits of the package and how many people are helped at the different stages.

**The Convener:** I understand that but, at stage 4, you would have expected to help X amount of people with advice on energy and other issues, and you would have expected another group of people to apply successfully to have a central heating system installed. From the Government's calculations with its partners, how many would we have expected?

**Nicola Sturgeon:** I can provide the committee—although not right now—with statistics on the number of people whom we would expect to have helped at each stage. The point that the committee must understand is that stage 4 is not only about central heating. People can access a range of measures at that stage. Central heating is one of them, but air-source heat pumps are another.

**The Convener:** There is not a constituency MSP who does not understand or has not struggled to understand the system. We get people in our constituency offices every day of the week asking about the issue. It is a genuine constituency question.

**Nicola Sturgeon:** I understand that. Committee members will also appreciate that record numbers of central heating systems have been installed in each of the two years of this Government. We have designed a new programme—in partnership with stakeholders on the forum that we set up—that is about helping a much broader range of people in a much broader range of ways. The commitment to that is absolute, but we need to ensure that the money that we are investing is genuinely tackling fuel poverty. Many stakeholders thought that that was not the case with the previous programme.

**The Convener:** Well, tremendous demand exists out there for that money. If the number of installations is only 173 so far, let us hope that we can increase that figure and that the people who deserve help receive it.

**Alasdair Allan:** Clearly, the interventions to deal with fuel poverty are many and varied, between the Government's activities and the CERT scheme and so on. Do the public understand the many different options that are available to deal with fuel poverty?

**Nicola Sturgeon:** Part of the objective behind the energy assistance package is to streamline things so that people have one point of access from which they can receive appropriate advice. From the public's point of view, I suspect that the range of potential support that is available could be confusing. When people phone up the energy assistance package helpline, they are signposted

to the right support that is available for them. That support might be about benefits uptake, energy efficiency advice, working with an energy provider to be put on a lower tariff or even, under stages 3 and 4 of the package, physical measures in the person's home. The energy assistance package is intended to streamline the whole system to make it easier for people to understand.

**Alasdair Allan:** On that issue of streamlining, does the Government have a view on the wider issue of private house repairs? Many houses in the private sector might need measures other than loft insulation if structural problems, for example, are the source of fuel inefficiency. Is wider consideration being given to the issue of private house repairs?

**Nicola Sturgeon:** Obviously, the private housing repair grant is available—it is now rolled up into the local government settlement—so considerable resource goes into supporting people in private housing to make repairs to their homes. In addition, as the committee will be aware, John Swinney made an announcement at the weekend about a loans scheme that will provide loan funding to those who seek to make changes for energy efficiency purposes. A wide range of work needs to be done, and is being done, to tackle the energy inefficiency of our housing. Obviously, the Government set itself ambitious targets under the Climate Change (Scotland) Act 2009 and private housing generally will have a big contribution to make in meeting those targets.

A separate but related issue is fuel poverty, which is what the energy assistance package is most focused on. I believe that the energy assistance package is much more tailored to tackle fuel poverty than was the case with the programmes that it replaced.

**Alasdair Allan:** Finally, do you have a view on how the package ties in with the Westminster Government's cold weather payment? The system of cold weather payments has been criticised for failing to attack some aspects of fuel poverty—I declare an interest as someone who lives on the west coast rather than on the east coast—because the measurement is based on frost rather than on wind chill.

**Nicola Sturgeon:** I know that how the payments are triggered during very cold spells is an issue. The matter is reserved so I cannot remember all the details, but I know that it is virtually impossible for people in some parts of the country to be eligible for such payments.

On the general issue, I think that cold weather payments are a good thing and I hope that they continue. Such payments have a part to play in helping people—in particular, older people—to deal with the reality of fuel poverty. A wide range

of other Westminster-related issues come into the mix in dealing with energy efficiency and fuel poverty. We are trying to work together as effectively as we can to deal with those issues, but that is not always easy.

**David McLetchie:** I want to ask about the fairer Scotland fund—or the former fairer Scotland fund, to be more accurate—in the context of the next budget settlement. The fund's budget was £145 million for the current financial year, but it is being rolled up into the overall local government settlement. Correct me if I am wrong, but my understanding is that the local authorities' divvying up of the money is in accordance with the previous mechanism—the Scottish index of multiple deprivation—which is different from the formula for the local authorities' divvying up of the general grant. Presumably, that means that in order to do the divvying up for 2010-11 and future financial years in accordance with the SIMD formula, the Government must have a notional aggregate figure in mind for the money that will be divvied up on that basis, as opposed to the formula for divvying up the rest of the money that goes to our councils. Is that correct?

11:45

**Nicola Sturgeon:** Yes, up to a point. You are right that the fairer Scotland fund has been allocated on the basis of the SIMD. As I said in response to, I think, Patricia Ferguson, all community planning partnerships have made allocations from the fairer Scotland fund total of £145 million for the next financial year. That money has been allocated on the same basis as previously—albeit that the ring fencing has been removed—so the money is still being allocated on the basis of the SIMD. For future years, that will be subject to discussions that we will have with local authorities about the basis for the allocation of the money. Your general analysis is therefore right, except for the fact that we have not yet taken decisions about how that will be done in future years.

**David McLetchie:** In future years, if the formula for division differs from the general formula for division of local authority grant allocations, it will mean that the Government must always have in its head what the global sum is when it does the sums; otherwise it could not do the arithmetic.

**Nicola Sturgeon:** I understand your point, but we have not reached a view with local government about how that money will be allocated in the future. You will be aware of broader looks at the allocation formula for local government, and decisions on that have yet to be taken. However, I understand your point.

**David McLetchie:** So, in fact, the longevity of the SIMD as an allocation basis is up for grabs, and it might end up being subsumed in a new or revised general division formula.

**Nicola Sturgeon:** That is speculative, because we have not taken a decision about the future allocation methodology for that particular sum. The ring fence has been removed from next year on, although the allocation for next year is still based on the SIMD.

**David McLetchie:** And it is the same global sum, so that budget or sum for division is effectively frozen at £145 million.

**Nicola Sturgeon:** Yes—for 2010-11.

**John Wilson:** I want to take the cabinet secretary back to the first part of today's session, which was on housing. The Scottish Federation of Housing Associations indicated in its evidence at last week's meeting that a local authority was in discussions about a large-scale transfer of its housing stock. Are you aware of any discussions of that nature? What impact, if any, would that type of transfer have on the draft budget?

**Nicola Sturgeon:** We are not involved in any discussions of that nature at this stage.

**John Wilson:** That is fine.

**The Deputy Convener (Alasdair Allan):** As there are no further questions, it remains for me to thank the cabinet secretary for her attendance. We will suspend for a couple of minutes until the convener gets back.

11:49

*Meeting suspended.*

11:53

*On resuming—*

## **Public Services Reform (Scotland) Bill**

**The Convener:** Agenda item 3 is consideration of the committee's response to the Finance Committee's consultation on the Public Services Reform (Scotland) Bill. I remind members that, in our discussion on the Scottish Government's response to the committee's correspondence on home care services for the elderly, we raised concerns that there were no plans in the bill to give the new body—social care and social work improvement Scotland—powers to take enforcement action against local authorities that ultimately contract out care services.

I wrote to the Cabinet Secretary for Finance and Sustainable Growth to express our concern, and a reply has now been received, a copy of which has been circulated to members today. The reply confirms that there are no plans for the bill to give the new body the powers that we seek for it. As a consequence, I ask members whether we agree to write to the Finance Committee to express our concern.

**Members indicated agreement.**

**John Wilson:** It was me who initially raised the issue of compliance by local authorities. Although I agree with what you suggest, convener, I am also concerned that the cabinet secretary's response states that

"it is the responsibility of the elected members of the local authority to ensure that the authority responds appropriately to these recommendations."

I am not sure how we can get this over to the cabinet secretary, but my difficulty is this: if we do not have any way to ensure that appropriate action can be taken against the local authority, how can we ensure that the local authority will respond appropriately to the recommendations that are made to it? If issues arise, we can take appropriate enforcement action against the deliverers of the service by presenting the local authority with a recommendation, but it will then be for elected members to make the decision.

I am not happy with that situation. It is local authority officials who are entrusted to put the contracts out and to carry out the monitoring and enforcement of the contracts; yet, we are told that the decision to take action will rest with elected members. I would be interested in finding out how many elected members are involved in letting the contracts out, with the exception of their rubber-stamping an official's recommendation at a committee meeting that may be held once a year

or once every four months. I leave it to the convener's discretion as to how can we can get that message over to the cabinet secretary.

**The Convener:** I understand your concern, but the letter from Mike Martin says that draft guidance will be issued in November, which is not too far away. It would be worth while for committee members to apprise themselves of that guidance and, if necessary, comment on it. It may reassure; it may not. However, that may suffice at this point.

**David McLetchie:** It seems slightly odd that central Government is busy issuing guidance on how all these things should be done but then shies away from giving SCSWIS the responsibility for ensuring that that guidance is followed in practice. If it is a matter not for the Government but for the concordat and local councils, why is the Government issuing the guidance to the councils in the first place? There is no logic to that. Why does the Government not just say that there is a general duty to run the services, full stop, and tell councils to do it themselves?

**The Convener:** I am open to suggestions, but we have agreed to notify the appropriate committee of our concerns. I presume that there will be opportunities to make those points when we have the guidance, which will be soon. I think that we are all a bit sceptical about how we are going to get a resolution to the situation, but if the guidance is as strong as we want it to be we may be more relaxed about it. We still may have some comments to make about it, but we should perhaps wait to see what the guidance says. We can take our opportunities, as committee members, to pursue any concerns that we have as they come up.

## Subordinate Legislation

### Registration Services (Prescription of Forms) (Scotland) Regulations 2009 (SSI 2009/314)

11:58

**The Convener:** Agenda item 4 is the consideration of a negative instrument. No concerns have been raised about the instrument and no motion to annul it has been lodged. The Subordinate Legislation Committee considered the instrument yesterday and draws our attention to it

“on the ground that there has been a failure to follow normal drafting practice in respect of one of the relevant enabling powers”.

Members have a copy of the Subordinate Legislation Committee's comments—it is mainly technical stuff. Do we agree that we do not wish to make any recommendation to the Parliament in relation to the instrument?

**Members indicated agreement.**

**The Convener:** As previously agreed, we will take agenda item 5 in private.

11:59

*Meeting continued in private until 12:55.*



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