RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

Wednesday 24 September 2008

Session 3

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RURAL AFFAIRS AND ENVIRONMENT COMMITTEE

16th Meeting 2008, Session 3

CONVENER

*Roseanna Cunningham (Perth) (SNP)

DEPUTY CONVENER

*John Scott (Ayr) (Con)

COMMITTEE MEMBERS

Karen Gillon (Clydesdale) (Lab)
*Liam McArthur (Orkney) (LD)
Des McNulty (Clydebank and Milngavie) (Lab)
*Alasdair Morgan (South of Scotland) (SNP)
*Peter Peacock (Highlands and Islands) (Lab)
*Bill Wilson (West of Scotland) (SNP)

COMMITTEE SUBSTITUTES

Jamie Hepburn (Central Scotland) (SNP)
Jim Hume (South of Scotland) (LD)
Nanette Milne (North East Scotland) (Con)
David Stewart (Highlands and Islands) (Lab)

*attended

THE FOLLOWING GAVE EVIDENCE:

Neil Cameron (Tulloch Homes)
Hughie Donaldson (Scottish Crofting Foundation)
Max Lalli (Scottish and Southern Energy)
Jim McOmish (Scottish Power)
Susan Torrance (Highland Housing Alliance)

CLERK TO THE COMMITTEE

Peter McGrath

SENIOR ASSISTANT CLERK

Roz Wheeler

LOCATION

Committee Room 4

Scottish Parliament

Rural Affairs and Environment Committee

Wednesday 24 September 2008

[THE CONVENER *opened the meeting at 11:03*]

Rural Housing Inquiry

The Convener (Roseanna Cunningham): I welcome everybody to today's meeting and remind them to switch off mobile phones and pagers—or put them into flight mode—so as to avoid any disruption to our sound system.

We have received apologies from Karen Gillon and Des McNulty.

Agenda item 1 is the taking of evidence in our continuing inquiry into rural housing. Our first panel of witnesses is from Scottish Power and Scottish and Southern Energy; we will be asking them about the connection of power supplies to new rural housing developments. The session arises out of evidence that we heard during our meeting in Melrose in the first week of September. I welcome Max Lalli, who is commercial manager of power systems at Scottish and Southern Energy, and Jim McOmish, who is distribution policy manager of energy networks at Scottish Power. Our witnesses have come at relatively short notice, and I am grateful that they are here. Written submissions have been circulated to committee members, as has a short background paper from the Scottish Parliament information centre.

We had hoped to have witnesses from Ofgem—the Office of Gas and Electricity Markets—but unfortunately they were unable to attend, partly because of the short notice, and partly because Ofgem is in the middle of an inquiry into energy markets. However, Ofgem will send us written evidence, which will include answers to any questions that might arise from today's evidence.

We will move straight to questions. We have allocated until 11:40 for this session, although we may not need all that time. To begin, Peter Peacock wishes to raise a specific issue that was raised in Melrose.

Peter Peacock (Highlands and Islands) (Lab): Gentlemen, you will be aware of the background to my questions, and you will have read the evidence that we received in Melrose—in particular, the evidence from a private developer. The criticism of Scottish Power was, to say the least, trenchant; but Scottish and Southern Energy has a similar policy to that of Scottish Power, so the issue could be described as Scotland-wide.

Companies that operate in rural areas, as well as individuals who live there—I have personal experience of this—have expressed clear concerns about the costs of connecting supplies to new homes, whether individual homes or groups of homes. Both of your companies seem to operate a practice whereby cash is required up front, often well in advance of any work being done. Why do you feel that such a policy is justified?

Max Lalli (Scottish and Southern Energy): Both our licence and the regulator require us to publish the methodology of how we collect charges. We ask for money up front because, if we did not, we would have to recover the costs of financing any work. We are a low-risk business, so we think it better that the customer should raise the finances and then pay us. On the question of when we require the money, that depends on the job. Some jobs might take two years to come to fruition, in which case there could be phased payments. Payment is not always entirely up front, but it is required before we incur any expense.

Jim McOmish (Scottish Power): The practice is used not only by Scottish Power and Scottish and Southern Energy, but by all regulated and licensed distributors in the United Kingdom.

Peter Peacock: For most goods and services that people purchase, very seldom would costs be paid up front, with a wait of several weeks or months before anything was delivered. If people buy goods and services, they normally receive at least part of the goods or services before paying a deposit or anything towards the cost. However, you require the whole cost up front and, as I say, you sometimes require payment many weeks before the customer receives the service. Is that justifiable?

Max Lalli: It is because of the way in which we are set up as a regulated industry. We cannot refuse to make an offer for making a connection. We do not have that commercial freedom. If a customer comes to us and asks for a connection, we are duty bound to give him that connection, but we are also duty bound to recover our costs. Our policy is the most efficient and economical way of doing that.

Peter Peacock: I am sure that it is, but the customer does not really have a choice. Is that not the point? At the end of the day, this issue stems from your monopoly. I appreciate that there can be some movement on the margins, and that some services can be provided by others, but I suspect that very few people take up that option. People do not have a choice. They have to pay you up front because, if they do not, they do not get the service. Is that not quite exploitative?

Max Lalli: You raise valid points. There has been competition since 1995, and it has ever-increasing scope. Originally, we were in a monopoly, but that is being eroded over time. The amount of competition is increasing. Ofgem looks into that regularly, and every year it publishes its findings on competition in the market. The latest report is on its website.

Jim McOmish: The most effective connections competition market in the UK has developed in SP's distribution area in the south of Scotland over the past five years. About 70 per cent of connections are delivered through competition connections in the south of Scotland.

Often, costs are being incurred and works are being done by the distribution business well in advance of the customer receiving a service or seeing works being delivered on the ground, or cables or overhead lines being diverted. Road opening notices need to be applied for, plant needs to be procured, orders need to be placed with manufacturers and planning consents need to be obtained if necessary. Costs are incurred in advance.

The Convener: Can you be a bit more specific about that? If, for example, individual home builders are required to pay £10,000 up front in February or March for an installation that they are told will not happen until October, how much money do you make from that? It is clear that you make some money. How much of that money would you have to spend before October? Such a case happened in my constituency—as other members have said, we are all experiencing this. The people had to pay £10,000 in February or March for work that will not be of any benefit to them until October. They were required to pay every single penny. How much money do you make from that and how much of it is pre-committed by you?

Jim McOmish: I could not say what proportion of money would be pre-committed for that particular job, because each job varies depending on the circumstances.

Licensed distribution companies are not allowed to make a profit from regulated connections activity. We have an obligation to provide that activity, and it is non profit making.

The Convener: Who gets the interest on the money?

Jim McOmish: We function in a five-year price control window. At the end of the regulatory period, Ofgem would socialise net profits that we made from connections activity or from allowed revenues, so the whole customer base would ultimately pay less.

The Convener: So the interest that you get on that £10,000 does not go back to the people who paid you the money.

Jim McOmish: It depends on the circumstances of the job and the contracts that are placed. As Max Lalli said, there are phased payments for larger jobs. When a job will be delivered over a number of years, if there are major plant items that might have delivery periods of 18 months or 12 months, we would phase payments from the customers to match the commercial exposure from the distribution company, but those would typically be much larger jobs.

Alasdair Morgan (South of Scotland) (SNP): I had not picked up from our briefing this business about regulated connections being a not-for-profit activity. You talked about competition. Is it correct that in some areas those connections could be done by other organisations?

Jim McOmish: Yes. Across the whole of the United Kingdom there is a vibrant independent connection provider market. Independent connection providers do new connections activities and diversionary activities, which we—or a licensed distribution company—subsequently adopt. In the past four years, there has been the introduction of licensed distribution companies operating out of area, so SSE, for example, has a number of significant networks across our area in the south of Scotland. A number of small independent network operators also install, own and operate networks. Those parties are not subject to the same regulatory constraints as us.

Alasdair Morgan: But those companies are all doing that for a profit—they are not charities.

Jim McOmish: Yes.

Alasdair Morgan: You say that competition has been very successful, so why are your potential customers going to those other companies? Is it because they are cheaper or is it because they do the job more quickly?

Jim McOmish: It is because they are more readily able to innovate, I believe. They offer multi-utility services—they do gas and electricity at the same time, and they install telecoms infrastructure and suchlike. They are not subject to the same time constraints or financial constraints as we are.

11:15

Alasdair Morgan: I am not sure why you should be subject to time constraints. Substantial numbers of customers seem to be going to those other companies, which are making a profit. We have heard that some customers feel that they have to go to you, and they hand you over a huge sum of money up front. Then, sometime in the dim and distant future, they actually get what they have paid for—yet you say that you are not making a profit out of that. Perhaps the other companies are doing something that you should be doing.

Jim McOmish: The independent distribution network operators that drive the development of the market are regulated differently. They make more profit, or greater margins, from owning the networks than we would, and they are able to subsidise connections. Primarily, that is what drives the IDN market. Developers get cheaper connections from independent network owners than they would get from the incumbent licence distribution companies.

Alasdair Morgan: Ofgem allows other companies to undercut you, whereas you have to fix the price at a certain level by regulation. Is that what you are saying?

Jim McOmish: Our prices are supposed to be cost reflective. We are restricted through the regulatory regime from offering subsidies for connections related to future income streams, whereas the IDNOs are not. The market is skewed to encourage competition in connection to develop.

Alasdair Morgan: But that competition does not seem to have had the effect of speeding things up yet, or of making you change your policy of asking for all the money up front. The regulator does not insist that you ask for the money up front, does it?

Jim McOmish: The regulator gives us operating cost allowances, based on historical costs and the costs that we face now, which, ultimately, are paid by all customers who are connected to our network, including the 2 million customers in the south of Scotland. If we changed our operating policy to increase the level of commercial risk that we carry, that could ultimately reflect through into the regulatory settlement that Ofgem gave us. The rest of the customer base would carry the cost.

Alasdair Morgan: The people who make up the customer base might feel that they are carrying considerable costs at the moment.

The Convener: Indeed—they are carrying all the costs at the moment, are they not?

Bill Wilson (West of Scotland) (SNP): The map that is contained in the SPICe briefing marks the south of Scotland with "ScottishPower EnergyNetworks". I do not have the sense from your evidence that it is possible to have a connection made with no involvement whatever of Scottish Power. Is it possible to have a connection set up in your area without any involvement from your organisation?

Jim McOmish: No. For smaller connections, we would provide the ultimate point of connection to the independent company, or we would adopt the network from independent connection providers. Some major connections could be connected directly to the transmission system, in which case the transmission companies would be involved, rather than the distribution companies.

Bill Wilson: In that sense, you remain a regional monopoly, ultimately. You have the final say over exactly when a connection occurs, and you influence the timing. Whatever work is done by small companies, you make the final connection, and you have the ultimate influence over what happens.

Jim McOmish: Our written evidence refers to the timescales that apply under our licence for responding to quotations. We would deliver a connection to an independent connection provider or an independent distribution company to energise the first element of that connection, but the energisation and the connections into the houses would be done by the independent connection provider or the independent distribution company. That would be entirely within their control.

Max Lalli: The regulator reviews annually what all the IDNOs do with regard to what we call non-contestable quotations, which are given out to facilitate another party giving the contestable bid. The regulator monitors how we perform in that regard, and the information is published annually.

Bill Wilson: John Scott may want to pick up on that point.

The Convener: Before he does, I welcome to the public gallery a member of Parliament from the Parliament of Victoria in Australia, who happens to be called Heidi Victoria. I hope that she will find our work interesting.

John Scott (Ayr) (Con): I add my welcome to that of the convener.

Ofgem is conducting an inquiry into regulation. Are you saying that there is a need to change regulation? You appear to be telling us that you operate at a competitive disadvantage, in that you are unable to make a profit from this work whereas others are. There seems not to be a level playing field. Should regulation not be equal for everyone concerned?

Jim McOmish: All distribution companies are in the early stages of negotiation with Ofgem on price control from 2010 to 2015. We are lobbying Ofgem to level the playing field for competition on connections. On the issue of profit, we think that it is unreasonable that any company should be required to carry out activity for no return.

John Scott: Is the fact that you do not make a profit on the work the reason that it does not appear to be addressed as a matter of urgency? At our recent meeting, a representative of Tweed

Homes stated:

> "The company says that it has a 12-week lead-in period, but in reality it is more like seven or eight months before someone turns up."—[*Official Report*, *Rural Affairs and Environment Committee*, 2 September 2008; c 898-9.]

Will you address that point? Getting the work done appears not to be your top priority, perhaps because you make no profit from it. There is a view abroad that the timescales for the work are far too long.

Jim McOmish: I do not believe that to be the case. Our connections business has a strong focus on customer service and delivering what its customers require. You mentioned timescales. A number of the constraints—road opening notices, way leaves and the land rights that we need to install our cables—are not apparent to developers and customers. Before we can energise cables, we need to have the appropriate title to land or access rights to ensure supplies once cables have been energised. At any site, there are a number of significant inherent delays that cannot be avoided.

John Scott: There appears to be a general problem. We have been given one specific piece of evidence on the issue, but it is supported by anecdotal evidence. There is a communication problem, at the very least, if developers and individuals do not understand the difficulties that you face and assume that the work is not done because you cannot be bothered to turn up, have too much else on or are not addressing yourself to it because you do not make a profit from it. Developers and individuals say that you turn up only months later, when it suits you, but you say that you work as fast as you can; you cannot both be right. The committee must establish where the truth lies. Can you help us?

Max Lalli: You said that the issue had been raised by one person. I do not know how many others have mentioned it to you, but we do not regard it as a general problem. The licence under which we operate prescribes that time is of the essence, so we cannot just fail to turn up. We must respond to requests. The customer must specify in his request when he wants work to be done. In our quotation, we must acknowledge that or make a counter-proposal. The customer may ask us to come the next day, but that is not realistic—we may not be able to do the work for three or 12 weeks. However, we must respond to the customer on that basis; in the quotation that we provide, time is of the essence. The customer has the right to go to Ofgem to seek a determination if he finds that we have not been fulfilling our contractual obligations. We are under the cosh of the regulator, and the fact that the market is competitive means that we compete with other people to win business and keep it to ourselves.

John Scott: So neither of you is aware of any complaints about the delivery of the systems that you install. You work on the basis that everyone is happy with what you are doing.

Max Lalli: You cannot always please everyone, but we do not recognise such complaints as a familiar theme.

John Scott: Could that be to do with the fact that, to a large extent—certainly as far as the final connection is concerned—you are monopoly providers, and people might take the view that if they were to challenge you, you might just take a little longer and put their application to the bottom of the pile again? I dare say that you would challenge that.

Max Lalli: We would. As I said, the regulator monitors us and we have to publish our performance on such matters. Ultimately, if we do not perform, we will lose the business because the competition is out there.

Jim McOmish: As regards the complaint by Tweed Homes, I asked my colleagues in our connections business to investigate whether there was a history of complaints and an on-going customer service issue that needed to be addressed. We have one record of Tweed Homes expressing a concern in the past year or so, which related to physical delivery of connections on a site. There were delays, which we had communications with Tweed Homes about, and the fault lay with a number of parties. On one occasion, the site was not ready when our staff turned up to install equipment.

We have no record of any communication from energywatch, the energy ombudsman or Ofgem about Tweed Homes making complaints or expressing concerns, and no such matters have been raised directly with us.

Peter Peacock: I want to clarify the point that you made about not being able to make a profit on new connections. I think that you indicated that if you were to make a profit accidentally, so to speak, you could not keep it. Is that the case? You can make a profit, but you cannot keep it—you must put it towards subsidising your social obligations. Am I correct in understanding that that is what you said?

Jim McOmish: Yes. That is how the allowed revenue mechanism works. At the end of each five-year price control period, Ofgem makes regulatory adjustments to our asset base for various activities. One such activity is the making of any connections margin.

Peter Peacock: So you can make a profit, but over time it is taken out of the system and applied to other things.

Jim McOmish: Yes. We would seek only to recover our costs on each job and would price it accordingly.

Peter Peacock: So the price that you quote will, as far as you can gather, cover just the cost of that job, thereby eliminating any profit element.

Jim McOmish: Yes.

Peter Peacock: If that is the case—I do not doubt that it is—what is the case for charging anyone anything up front? The way in which the costs work means that you end up not making a profit. If an individual or a small company did not have to fork out £10,000—or £6,000, or whatever it might be—up front, the removal of that burden would help their cash flow and assist them in various other ways. Would that not be a fair proposition?

Jim McOmish: The regulatory mechanism works in a one-sided way. If we made a loss, a regulatory adjustment would not be made to our asset value. Any net profit is taken away, but any net loss is not compensated for.

Peter Peacock: So taking the cash up front and using the interest that you can gain on it until you complete your expenditure is part of the way in which you balance the equation without generating a profit. Is that correct?

Jim McOmish: I am sorry—could you repeat that?

Peter Peacock: If you keep my £10,000 in your bank account for six months, you will make some money on it. Is that money factored into the quotation to ensure that you do not make a profit? Would you use that cash to reduce any losses?

11:30

Jim McOmish: I do not know precisely how it is factored in. As Max Lalli said, it also deals with rising costs in the period. We have seen unprecedented input cost rises over the past five years. We would not go back to the customer and say that we were increasing their quotation because the price of copper had increased significantly.

Peter Peacock: House building is a rather curious thing. When I built a house four years ago I was subject to this regime, so I understand how painful the process can be. I am not seeking retribution in my questions to you.

When I was building my house, you were the only part of the house building equation that charged me cash up front. I got things delivered from the builder before I paid him any money, which seems normal practice in commercial business. Is it not time to change your practices to ease the cash burden up front and to fall in line with what providers of most other services in our society do?

Max Lalli: That is one of the fundamental issues. We are not like the other providers. Historically, we had a monopoly, so we have to provide the connection. The people to whom you referred are in the business to make a profit. We are there because we have an obligation as providers.

Peter Peacock: So, the obligation on you forces the customer to pay up front. Is that what you are saying?

Max Lalli: No. We are saying that the way in which we are regulated means that we are a low-risk business in that sense—we are not there for that purpose. The presumption has been that we get the money way up front and, therefore, live off the interest. However, that is fundamentally not the case. We have to publish our methodology and make things cost reflective. The customer always has the redress of Ofgem to look at our prices. They can go to the regulator, which determines cases in which people think that excessive charges have been made. We are always under the regulatory burden to defend our charges and to demonstrate that they are cost reflective.

The Convener: But the regulatory regime does not require you to ask for all the money up front.

Max Lalli: It is to do with the way in which the framework is set up. As Jim McOmish said, in doing our five-year price control reviews, when we make our case for our business costs, we do it on the assumption that we will get the money up front; we are not financing that—

The Convener: But it is not the regulatory regime that requires you to do that. There is no regulation that says that you must ask for the money up front. There is nothing to prevent you from asking for 50 per cent now and 50 per cent on completion, is there?

Max Lalli: Except that we would then have to finance that. Therefore, we would have to recover it in the costs at the end.

Bill Wilson: But surely you are financing only the bit of work that is immediately coming. You said that you phase larger jobs. Presumably you could phase all jobs, so that an individual who has to pay £10,000—which might not be a lot of money to an energy company, but is a lot to the individual—could pay £1,000 to cover the initial work, after which subsequent payments could also be phased. You have not done 100 per cent of the work, so you do not have 100 per cent outlays. You are covering more than your outlays. Why cannot you phase for all jobs, regardless of their size?

Max Lalli: It is primarily to do with administrative efficiency.

Liam McArthur (Orkney) (LD): I want to take a slightly different tack. On incentives in the system, you say that what you are doing is not for profit, but if you make a profit, there is the handy side benefit of socialising such profits across your customers. In the current environment, in which energy costs have been spiralling, anything that allows you to defray cost charges to customers across the board is attractive. Chipping back the additional surplus to the individual concerned, whether in a £10,000 small project or on a larger scale, just does not have the same attractiveness. I can see perverse incentives for you to estimate a charge that is not just cost reflective but errs on the high side, because there is no downside to that.

Max Lalli: The downside would be that competition is there, so the customer can go out into the marketplace and get another quotation for that work.

Liam McArthur: You said that the competitive market is undercutting you in time and costs, so what are a few thousand pounds here or there on any given project?

Max Lalli: Our duty is to have prices that are cost reflective. We are in the business to provide connections and that is what we want to do. We do not want to lose out to competition, because our obligation is to provide connections and we must have a de minimis workforce to provide connections. We are keen to provide as many connections as we can, as best we can.

The Convener: What happens if you take £10,000 up front but the cost of the job turns out to be £8,000? Perhaps you never bother to cost the job in retrospect.

Max Lalli: For certain jobs our methodology is to produce fixed quotations—that is partly the customer's choice. The costs might go over or under, but that is not always reconciled at the end of the process.

Bill Wilson: You are competing against companies that have to make a profit. You told us that those companies can outbid you and get the job, even though you are not making a profit. Does that suggest that your estimates are often rather higher than they should be?

Max Lalli: No, because we are covering the whole area, which includes rural and urban areas. I do not know where the competitors are operating, but they might be localised and have lower overheads—

Bill Wilson: Fair enough. Perhaps a competitor operates in a small area, but that suggests that your estimates are overly high in that small area at least, because someone can outbid you even though they are making a profit.

Max Lalli: I repeat that our methodology for coming up with quotations is published; the principles of that are approved by Ofgem; and we must abide by those principles. It might well be that the cost of connection in rural areas is higher, only because the area is remote from the network into which we are connected, but that is the cost-reflective nature of the business.

Bill Wilson: I accept that your methodology is published, but, with respect, that does not make it good methodology. If you, who are not supposed to make a profit, can be outcompeted in some areas by companies that are making a profit, your charges must be too high in those areas, because otherwise the companies that make a profit could not outcompete you.

Max Lalli: The methodology is not only published but approved by the regulator.

Bill Wilson: People are already paying large sums of money and energy costs are going up, but you are asking to make a profit on connections, on top of the other profits that you make. Energy companies are not losing money just now.

Max Lalli: One must be careful. In talking to us today you are talking to the distribution business. We are not associated with the retail or supply side of the business. There are different, ring-fenced, regulated businesses.

Peter Peacock: You mentioned the competition that has come into the market since Ofgem's intervention a number of years ago. What percentage of your previous business has been lost to the competition? If the information is not readily available, could you supply it to the committee?

Max Lalli: Ofgem publishes that information every year. I scoured Ofgem's website, and the data for 2007-08 are not on the website, but the data for 2006-07 are there. Ofgem is due to publish the more recent information. It publishes information yearly on all the IDNOs and shows what is supplied by independent connection providers.

Jim McOmish: In my written submission I included information about the connections market in our area. That reflects physical connections that have been delivered, which relate to contracts that in some cases were placed two years previously. The actual connections that have been won by independent distribution companies represent about 50 per cent of the market in our area.

Members asked whether this is the right time to challenge the charging mechanism for customers and the approach to up-front charging. The time is right in relation to our price control negotiations with Ofgem. We are holding stakeholder events, as is SSE, and we will have events with members of the Scottish Parliament, to try to ascertain what aspects of the regulatory regime need to change. Invitations to those events will be issued.

The Convener: As ever, you are invited to put on paper additional thoughts if you want to clarify points or raise matters that we did not ask about. Equally, we will follow up with you anything on which we want further information. I thank you both for coming, particularly at such short notice. You are free to leave or to stay now.

Subordinate Legislation

Control of Salmonella in Poultry (Scotland) Order 2008 (SSI 2008/266)

Smoke Control Areas (Authorised Fuels) (Scotland) (No 2) Regulations 2008 (SSI 2008/295)

Smoke Control Areas (Exempt Fireplaces) (Scotland) (No 2) Order 2008 (SSI 2008/296)

11:40

The Convener: Agenda item 2 is consideration of three instruments that are subject to negative procedure. The Subordinate Legislation Committee made comments only on SSI 2008/266 and an extract of its report has been circulated to members. No members have raised concerns about any instrument in advance and no motions to annul have been lodged. Does any member have comments?

John Scott: I am once again dismayed about the drafting. A drafting problem has been acknowledged. I encourage better drafting in future.

The Convener: Do we agree to make no recommendations on SSI 2008/266, SSI 2008/295 and SSI 2008/296?

Members *indicated agreement*.

The Convener: Agenda item 3 is the second panel of witnesses for the rural housing inquiry. A brief suspension is in order to swap over witnesses.

11:42

Meeting suspended.

11:43

On resuming—

Rural Housing Inquiry

The Convener: I welcome the second panel of witnesses, which comprises Neil Cameron, who is the director of Tulloch Homes; Hughie Donaldson, who is the Scottish Crofting Foundation's vice chair; and Susan Torrance, who is the Highland Housing Alliance's chief executive. All the witnesses have provided written submissions, so I will go straight to questions.

Alasdair Morgan: I have a series of general questions about the success and suitability—or otherwise—of the planning system. I was not a committee member when it received the evidence that I will ask about, but it chimes with stuff that I have heard in the south-west. Witnesses have said:

"Planning policy has at its core the desire to restrict housing in the countryside,"

and

"Planning for rural housing has generally had the attitude of allowing development only in exceptional circumstances when other options have been exhausted"

and

"the rhetoric of sustainability has been used as a rationale for resisting any development, housing or otherwise."

In the light of your experience, will you comment on those statements? Some people would say that Scotland—particularly rural Scotland—is not really full yet and that some of the restrictions on housing in rural Scotland are over the top. That is the basic proposition.

11:45

Neil Cameron (Tulloch Homes): It can be difficult to get planning permission in remote and rural areas and the planning authorities should be more flexible. There is not a huge demand in such areas—we are probably talking about one or two houses a year at the very most—so zoning land for housing can be a bit restrictive because it might cause infrastructure problems. It would be an improvement if planning authorities were flexible enough to consider how they could build a house on the edge of a settlement, where it could be serviced, rather than on zoned land.

Alasdair Morgan: Is the main complaint a ban on or presumption against building outside the boundaries of an existing settlement?

Neil Cameron: I think that it is. It is not a huge demand to build on the edge of a settlement because it would not make a huge difference to the settlement. If the house were designed sympathetically in accordance with the buildings around it, it would be fine.

The Convener: Do any of the other witnesses want to comment?

Susan Torrance (Highland Housing Alliance): Yes, I want to talk about the local plan process. To be fair, there has been a much more proactive approach by planners in Highland to try to ensure that all the households and communities that are engaged in a local plan are notified of what is likely to happen in their community.

The planners try to get information at an early stage about whether zoned sites can deliver housing. A useful audit, done by Homes for Scotland, I think, showed that—off the top of my head—something like 30 per cent of land zoned in local plans was unable to be developed, because either there were access and legal problems or the landowner simply did not want the land to be developed. The land might have been included in the plan without properly consulting the landowner to ask whether they were serious about moving it into development.

The emphasis on getting it right at the local plan stage and taking on board all the community aspirations as well as the public and private sector aspirations is really important. Once the plan is in place, there must be the ability to drive it through in the knowledge that sites can be moved into development.

Hughie Donaldson (Scottish Crofting Foundation): I have two points and I do not fully agree with Mr Cameron. Five to 10 years ago, it was our experience that when we looked to develop where it was possible, the bogeyman was Scottish Water. To be fair, its investment programme was given low numbers and there was a low expectation of development, but that meant that sometimes, before the plant was even on site, capacity was overreached. However, I take my hat off to Scottish Water because, over the past few years we have, on the whole, solved that problem. Well done to Scottish Water on that, and on some of the community planning and development forum work that has gone on.

The double-edged sword of crofting is that crofting legislation is seen as secondary to planning legislation. Despite the Planning etc (Scotland) Act 2006 and the recent Shucksmith inquiry, crofting legislation does not take primary place, which would allow the land to be opened up and developed. Instead, applications go to planning and, once there, the Crofters Commission will not act as a secondary planning authority or instruct that the best land is kept for agricultural use, and the envelope of the village is then developed. Current practice is restrictive, but there are two sides to the argument, and they are hard to reconcile at the moment.

John Scott: I have several questions. For the record, should the best agricultural land be kept free of housing?

Hughie Donaldson: Exactly.

John Scott: Secondly, you talked about dezoning, and the barriers created by Scottish Water. Given the previous panel's discussion, do you have experience of barriers created by any other utility companies? Finally, what are your views on the greater use of compulsory purchase orders?

Hughie Donaldson: Other barriers include getting discharge consent for soakaways in remote and rural areas, and the need to move to BioDisc systems and the enhanced cost of that. Also, the Scottish Environment Protection Agency's exaggerated flood management plans have recently come to the fore, in which half the Highlands are predicted to be under water in the next 10 years. In SEPA's disaster portfolio, Invergarry disappears under 28ft of water and half of the Great Glen floods every 10 years. Because of SEPA's projections of flood damage, it is extremely difficult to get planning consent.

As far as I know, compulsory purchase has never been used in the Highlands and Islands.

John Scott: I would be interested in other people's views.

Susan Torrance: Just because it has not been used does not mean that it cannot be used. We are in an interesting situation at the moment. Over the past five years, land prices rose dramatically and it was good business for farmers and landowners to sell on sites for housing development. Now that the bottom has dropped out of the market, there is no incentive for them to move their land into development. Farmers in particular would be quite happy to sit for the next 10 or 15 years doing nothing, in a village where a key site has been factored into the local plan. It goes back to my earlier comments on the importance of zoning and what that means for communities that want development. When landowners decide, because things are no longer at their peak, that they will just sit back and wait for the next boom in 15 years' time, they should be made aware that what they are doing is impeding the development of a village or a community.

John Scott: Are you saying that landowners should be forced to build houses, despite the fact that there is no one to buy or rent those houses?

Susan Torrance: As I tried to say in my submission, it depends on the financial model that is being used. We have motored along for the past 10 or 15 years, relying on private sector development to deliver affordable housing and planning gain infrastructure. That model has gone, but it has not stopped the requirement for land and housing supply. Now it is about finding new ways of bringing land into development. I am not saying that landowners would have to give land for nothing under compulsory purchase—they would certainly get more than the agricultural value—but there have been examples of people sitting and waiting for the market to rise and rise, which just ain't going to happen any more. Therefore, in order to avoid having even more land that is zoned for development stagnating, agencies need to be serious about what tools we have at our hand to bring that land into development, whether it is for affordable housing, for private housing—when the market recovers—or for some kind of intermediate model.

John Scott: Neil Cameron? Barriers to building?

Neil Cameron: I would add to what Susan Torrance said. We are in the middle of an unprecedented recession in the house building industry.

The Convener: We will come back to that.

Neil Cameron: It will take a long time for the industry to recover, and the areas that are being hit are the rural areas. Over the past 10 years we have been building in rural areas that we would never have dreamed of building in before. Land values in those areas are still comparatively low compared to central belt and city prices. We are talking about a maximum of £30,000 for an unserviced plot in a remote rural area, whereas in Inverness, an unserviced plot would be £80,000. There is still a huge differential in land prices. Landowners can sit there if they like, but it will be a long time before anyone buys their land from them. The issue over the next few years will be how remote, rural areas—and areas that are not even remote, such as Dingwall, Evanton and Alness—are ever going to get affordable housing on the back of private development.

John Scott: For the avoidance of doubt, are you saying that Scottish Water and SEPA are still barriers to development?

Neil Cameron: Scottish Water is still a barrier. Certain things cause difficulties in the Highlands. For example, the ground conditions are so impermeable that you cannot get soakaways to work, because of the rock. As you go further into Highland areas on the west coast, certain work becomes virtually impossible. You are up against a big barrier and a huge cost in trying to put in even basic sewerage systems.

The Convener: You talked about Scottish Water and SEPA. Liam McArthur has questions about infrastructure.

Liam McArthur: Susan Torrance talked about access. In its evidence, the Scottish Crofting Foundation said that the overspecification of access roads in some cases tilts the balance away from affordability in remote areas. I would be the last person to argue for inferior infrastructure and services in remote and rural areas. However, is there a case for having slightly different specifications for access roads and other infrastructure in some rural areas?

Susan Torrance: I do not have direct experience of that, but I have colleagues who work for registered social landlords to deliver housing in Skye, where the housing association grant is being asked to bear the cost of an overspecified road. That is a real barrier to their being able to comply with cost limits and deliver more housing.

In my paper, I referred to the development forums that we have in Highland—I keep bashing Highland's drum, but what I am saying is true. Over the past few years, those forums have enabled the housing providers, planners and roads guys to sit together and bash through the issues from both sides of the fence. If the roads folk have genuine reasons for wanting to specify a road in a particular way, such as for safety reasons, they have to be listened to. There is a more flexible approach, but I still think that we could be a lot more radical in how we look at things, given that our aim is to ensure that we get good-quality housing in rural areas.

Hughie Donaldson: Some things have to be developed a bit further, as the schemes for development that were introduced by the 2006 act roll forward and we increase the capacity of townships to look for solutions for themselves, in partnership with more traditional house providers. We are looking at the lower-quality ground on the edge of townships, such as boulder fields, the bottom of an outrun or somewhere that might be close to a road, on which there might be three different types of tenure. There might be private sector plots for sale, which might fund the infrastructure. There could be RHOG plots. There will not be crofter housing on the land, but there certainly could be affordable housing provided by an RSL, or even at the township's own hand. It is about retaining control of that development. There is an example of that being delivered by the Highlands Small Communities Housing Trust, in partnership with crofters, in Shieldaig in Torridon.

The idea is to develop the capacity of townships to find their own solutions. They need partners to do that. To go back to the previous panel discussion, though, if the infrastructure has to be front-loaded and has to be built to the highest specification from day one, that tends to knock schemes into a cocked hat right at the beginning.

A scheme that is being brought forward in Tong in Lewis, just north of Stornoway, has had every obstacle thrown at it, as a result of which there has been piecemeal development. Of course, the scheme is then criticised because the development has been piecemeal, but there have been so many barriers to overcome to get the houses built.

The development plan is multigenerational. It is about putting the infrastructure in for the next generation, so that we do not lose the young people and so that they have the opportunity to stay and take part. They are few in number, but they are important. That is one of the things that we have to work at for the future. The infrastructure costs from day one are a problem.

The Convener: We heard evidence this morning about the up-front costs of electricity connections. Do any of you have experience of that issue in your area?

Neil Cameron: We deal with Scottish and Southern Energy all the time and we have up-front costs. It is just something that you get used to. You accept it.

12:00

The Convener: Is that resignation in your voice?

Neil Cameron: That is exactly right.

If a development is properly planned on the site, and if you are working to a programme, Scottish and Southern Energy is not a problem.

The Convener: What is your average waiting time?

Neil Cameron: We do not have a problem with that at all, as long as we tell the company eight weeks in advance that we need people on the site. That would all be part of the planning and building of the road. However, it would be asking the impossible if we were to phone the company and say, "Right, we've done the track and we need you to lay a line tomorrow because people are moving in on Friday."

The Convener: But if you give a set time, the company will generally deliver at that time.

Neil Cameron: Yes. The service that we get from Scottish and Southern Energy is good.

Susan Torrance: I would say so too—though sometimes we balk a bit at the cost. The standard reason given for the cost going up is that the cost of copper has gone up.

In trying to fund serious up-front infrastructure costs, we are trying to develop a model that uses the land bank fund that is funded by Highland Council and the Scottish Government. We would go to sites—perhaps slightly larger than the sites that Hughie Donaldson was talking about—and say that we would fund the up-front costs of the infrastructure. We would define the housing to go on the site, and that element of the cost would be funded by the land bank fund in the first instance. As the site developed, we would recoup the cost and repay the fund. That model provides a clear route to getting the infrastructure in place and avoiding the kind of piecemeal development that we have heard about. Public housing providers would be defining the housing and determining whether the community wanted plots. It would be a different way of doing things—different from the piecemeal approach that we have often relied on in rural areas, which responded to demand and to people's ability to get mortgages.

We think that the new model is good, and we are using it. For example, if there is a large zoned area in a local plan, with several landowners who cannot agree on how to make progress with the development, and if no landowner can go ahead on his or her own because the cost of the infrastructure is too great, we can come in, act as a catalyst, and get the landowners to agree that we should front-fund the development. As the development proceeds, we will recoup the cost and repay the land bank fund.

I make that sound really easy, but it is actually quite difficult. It becomes more difficult as timescales for developments grow longer because of the lack of activity from the private sector. However, it is a good model for getting infrastructure in place and avoiding the piecemeal approach that Hughie was talking about.

Hughie Donaldson: Some unfortunate circumstances can arise when you are the last one in the capacity pile for an application—circumstances relating to a transformer on a pole, for example, or the size of a cable. If the transformer has to be replaced in order to make the connection, the cost can be very high. However, suppliers will generally bend over backwards to allow people to reduce costs. In communities, we normally have the skills and the machinery to dig trenches, supply cable, backfill the trench and put the ducts in, so that we are left with just a pole-to-pole connection. We work with suppliers closely—

The Convener: Do you know of any alternative providers who operate in your area?

Hughie Donaldson: Have you tried pricing a lorry on a ferry? People will not come out. It costs £1,000 to get a lorry over to Barra and back.

The Convener: So as far as the islands are concerned there is no real competition.

Hughie Donaldson: We do some work ourselves, if we can. The actual connection is made by the service provider, but in crofting communities we can normally reduce the costs—for cabling, and for a place for the transformer to go—by doing the work ourselves.

The Convener: So you are providing aspects of competition yourselves, in effect.

Hughie Donaldson: We can keep the costs down.

Liam McArthur: Neil Cameron talked about the state of the market—which we will come back to—and Susan Torrance has talked about significant up-front costs. You are obviously having to balance risks the whole time, and trying to anticipate and meet demand. To what extent are you already having to scale back ambitions, because of the costs that you would have to bear for up-front infrastructure?

Susan Torrance: My board is having interesting discussions about that, given the dramatic decrease in starts. I heard that whereas there were about 600 starts in Inverness in 2007 there have been only 60 starts to date this year. The housing supply in the Highlands is drying up. The Highland Housing Alliance exists to take more risks than RSLs would do and in some senses we are taking more risks than the private sector would do, by funding infrastructure costs up front. If we do not maximise our programme, who else will build affordable houses and supply the investment that is required to provide housing through RSLs?

A debate about that is going on in the board. Circumstances are changing rapidly, and we do not have 18 months to plan strategically. Developments can take two, three or four years to come to fruition, so if we halt everything now because of the current circumstances we might limit our ability to deliver in two or three years' time, when our houses might be needed because the whole industry might be deskilled and labour and private developers might not be available to the extent that they used to be. It is a huge issue.

The Convener: I presume that the witnesses deal with Highland Council and the Western Isles Council—

Hughie Donaldson: And Orkney Islands Council, Shetland Islands Council and Argyll and Bute Council.

The Convener: I presume that those councils have affordable housing policies—you might want to comment on that presumption. What are the witnesses' views on those policies, particularly in relation to rural housing, which is the subject of our inquiry? Perhaps Tulloch Homes has a view on section 75 commitments.

Neil Cameron: Highland Council's policy is that 25 per cent of housing in a development must be affordable. We have worked with that so far—

The Convener: Is the policy delivering?

Neil Cameron: Yes. However, it has been delivering on the back of an unprecedented housing boom. We were able to subsidise the affordable housing. It did not really matter to us if we put an extra—

The Convener: You are talking about the Highland Council area. Are you building in other council areas?

Neil Cameron: Yes. We have built in the Cairngorms national park, in Skye and Orkney and all over.

The Convener: Is the same approach taken across the board?

Neil Cameron: It is virtually the same approach across the board, although I think that the national park's policy is to have 33 per cent affordable housing, which will be difficult to deliver.

The Convener: Was it deliverable until the current crisis?

Neil Cameron: It was, but every year it has been getting more and more difficult, because the benchmarks have not gone up to cover the costs and more costs have been added. Before a development can get off the ground there must be badger surveys, squirrel surveys, insect surveys, bat surveys and so on, which cost a fortune. By the time you are finished you have spent about £50,000, just on environmental issues. Then there are archaeological surveys—we have one in North Kessock—which might cost £100,000 for starters. There are many costs other than infrastructure costs.

When money is tight, people start to wonder whether it is worth spending all that money up front to try to get planning permission. They think, "We do not need that planning permission yet. Let's hold back." That is how things have been going during the past six months. We have been putting off making planning applications.

The Convener: We will talk about the current circumstances, but I wanted to know whether you thought that councils' affordable housing policies had been delivered.

Neil Cameron: In Highland, the policy is to have 25 per cent affordable housing, which is generally the approach in other areas in which we work.

Susan Torrance: We work only in Highland, but I think that Highland Council has delivered more affordable units through section 75 agreements than any other council has. The policy has worked.

Hughie Donaldson: I want to drift a wee bit away from planning gain through section 75 agreements. The presentation that Tulloch Homes supplied says that the company has completed 1,000 homes in the 15 years since 1992. However, the rural home ownership grant produced 793 homes in the same period and the croft house grant scheme produced 658 homes in half that time. The financial instruments that put affordable houses in place are as important as planning policy.

I have done a little research into the various grant mechanisms and the level of public subsidy. GRO grants for owner-occupation, which were administered by local authorities, were basically grants of £30,000 that were lost; they could not be recycled when the owner sold up and moved on.

The homestake shared equity scheme and the low-cost initiative for first-time buyers have not been in place long enough to get a figure for how much grant can be recycled. As the credit crunch takes effect, we might not be able to recycle the grant because the owner might not be able to trade up. This is touchy-feely information because we do not have the research results but, typically, the grant is about £40,000 to £45,000 per unit.

According to the Scottish Government's research, the average RHOG over the 15-year period was £65,000, but the local authorities that made most use of that mechanism were Highland and Orkney, and the Orkney figure was even less, at about £35,000. I do not know what is going wrong with RHOG in the rest of the country, but we urgently need a replacement for that scheme.

The Convener: Will you forward that information to us?

Hughie Donaldson: I will do that.

Additionally, the average croft house grant was £21,300. According to private developer Tulloch Homes's figures, the deliverable cost of a house is £125,000; it is debatable whether that is affordable on an average income. Your own Scottish Government private sector grant is currently targeted at £50,000 over three years for 100 homes. If we iron that out and try to find out which instruments we can use to do more in rural and remote areas, I think that we will drill down on RHOG and the croft house grant scheme and find better ways of delivering them.

Liam McArthur: To follow up the exchange that the convener had with Hughie Donaldson about the self-sufficiency competition in more remote areas, I note that the Highland Housing Alliance submission talks about bulk procurement deals and bulk procurement finance. People in Orkney have raised the point with me that if we bulk out procurement and finance, the opportunity that local suppliers and firms have to engage in the process and compete becomes far more limited. Having a pipeline of projects to which such firms can sign up is of more interest to them than a massive project that covers every element of construction in a given area. Can Susan Torrance expand on that?

Susan Torrance: Because the project that we are talking about will be delivered all over the Highlands, the main developer on the contract will not send its staff to all sites. Instead, the developer will subcontract work to local contractors. We would expect that because it is the cheapest way for it to deliver and to bring economies of scale into the project. I hear what you are saying; I knew that there was an issue in Orkney because I was lobbied by the concrete manufacturer up there.

People need to understand what opportunities there are within bigger contracts, but there needs to be certainty, as Liam McArthur suggests. When there is a forward programme or a large one, that brings in certainty so that the developers and contractors can sharpen their pencils; they know the product that they are getting and can begin to think about delivering not necessarily huge savings but a house at a certain price. That contrasts with some of the vagaries of the tender system. Over the past couple of years, some of the west coast schemes have seen dramatic tender prices; contractors are not interested in taking on such projects because they have too much going on. How do we get past that to ensure that we continue to deliver housing on a reasonable basis?

Liam McArthur: As with all procurement, however, there is a problem with prime contractors taking out margins that then depress what the subcontractors can take from the contract.

Susan Torrance: Obviously, we are not privy to such negotiations. At the end of the day, it has to be a win-win situation or the main contractor ain't going to get the co-operation from the subbies in order to do the work. There might be a short-term issue but, in the long term, there has to be something in the contract for everybody who takes part, otherwise they will not take part or they will go to the wall.

12:15

Peter Peacock: My questions about affordability have been largely answered. I will move on to ask about the current situation. We have been through a successful period in which it seems that the affordable housing targets for Highland have been delivered broadly. Perhaps you have been more successful than others elsewhere because of the methods that you have used.

We have now moved into a different world. Susan Torrance's organisation has land or the potential to buy land and Tulloch has a history of having a good land bank, so land per se is not a particular issue in the Highlands—correct me if I am wrong on that. Given that, what is the essence of the problem? Without giving away too many commercial secrets, will Neil Cameron explain the decisions that he is taking? Do they relate to Tulloch's liquidity—its cash to build homes—or people's ability to obtain mortgages to buy properties? Is a combination of factors involved, including the housing grant situation? What would bring an immediate conclusion to the contraction of house building? What will you do about that? What is your top line for getting out of the situation?

Neil Cameron: What has happened in the past six months has been dramatic. There is no money for people to get mortgages. Banks are not giving it out and are becoming much tighter about whom they lend to. At the bottom end of the market, where shared ownership and other mechanisms attempt to put people on the housing ladder, banks will no longer operate.

Peter Peacock: Such financing mechanisms allowed you to deliver your affordable housing in the past.

Neil Cameron: Yes.

Peter Peacock: So because the first element has gone, the second will go.

Neil Cameron: Yes. We are selling perhaps one house a week, when we should sell 30. We now have 100 stock houses in Inverness—that is £20 million lying there. We must sell those properties before we build more houses. We employed 50 joiners in Inverness, but now we have six. Sites are on care and maintenance status. That is how bad the situation is—I do not think that people fully appreciate that. That will hit the rest of the economy by Christmas, because that will filter through to car buying and everything. We are in a very serious situation, which I do not expect to improve until the end of 2010.

Peter Peacock: You build houses not only for sale but for rent or for shared ownership and shared equity mechanisms with Highland Housing Alliance. Susan Torrance hinted at some mechanisms in her submission. What needs to happen now to minimise the contraction and to meet affordable housing targets again? Can the Government take effective steps? Can local authorities take action? Should we just put our hands up in the air and say that we do not know what to do?

Susan Torrance: I have an interesting paper from the Joseph Rowntree Foundation that looks back at what happened in 1989 and 1993—mainly in England, although the Scottish rent-to-mortgage scheme is also covered—when Government money was used to try to underpin the system, whether through buying vacant stock or providing financial mechanisms or guarantees to encourage lenders to re-enter the market and lend. However, a point that we do not really understand—Neil Cameron hinted at this—is that banks have no money.

We are trying to sell plots and we have a perfectly fair mechanism to ensure that the discount is not given just to the individual who buys the discounted plot—we will postpone the discount to the private lender, so no risk is involved—but no lenders will touch that system. The reason that they give is that the decision must go to a policy committee because the mechanism is new and whatever. One applicant works for a bank, and even she cannot obtain a mortgage on that basis.

The Convener: In the current circumstances, is the answer to focus much more on building social housing for rent rather than for purchase? That would still get building going and would remove the problem of people having to find mortgages.

Susan Torrance: Another elephant in the room is the whole business of the new regime for RSL funding and housing association grant that the Scottish Government has introduced. The Government is trying to drive efficiencies into HAG and to obtain more money for Government investment, which is fair enough, but it has introduced a set of assumptions—particularly on private borrowing—that do not apply at the moment.

Some associations—I will not name them—are saying, "We have a choice here. At board level we are seeing financial projections that show us building no more houses and being very comfortable, thank you. Alternatively, we can accept the new HAG assumptions and build. However, that could put our businesses in jeopardy, because we cannot borrow at the rates that Government assumes that we can get, we are being asked to cut back on other parts of our operation in unsustainable ways, and we cannot keep increasing rents, because we would make our product unaffordable"—

The Convener: Is the drying up of money from the banks affecting housing associations?

Susan Torrance: Yes.

The Convener: It all comes back to the availability of money.

Susan Torrance: Yes, it does.

Hughie Donaldson: I agree entirely with Susan Torrance, because I work with housing associations and the Highlands Small Communities Housing Trust and we have been through the argument ad infinitum. There is an ever-decreasing circle, which we cannot get out of. Either we use the reserves and go bust or we stop building—that is it.

The Convener: What could be done to change that situation?

Hughie Donaldson: I will answer from a crofting perspective. People say that there is nothing new under the sun. The Scottish Government used to operate a loan element in two grant mechanisms. If such money were available, it could kick-start small numbers of private building developments. Such an approach would not rescue the housing industry, but it would address issues in remote and rural areas, where house building could continue.

A beneficial effect of the current situation is that, whereas less than six months ago we were operating in Lochaber with build costs of £1,350 per square metre, costs are now under £800 per square metre, because builders need the work. People say that building costs in the Western Isles have always been higher, because of transport costs, but the effects of that are now negligible, given the lower build costs. If we are to get the self-build sector moving again, a loan element attached to a grant—it should be an intergenerational loan, with a 40-year repayment period—would help to kick-start that small part of the house building sector.

I cannot comment on the larger issue, which is outside my remit.

Susan Torrance: We must find financial institutions that are willing to lend or that can tell us in what risk-free circumstances they would lend. That might happen through collaboration with Government or through the introduction of new mechanisms. I have never understood why pension funds do not invest in property in better ways than they currently do. There are issues to do with the 21-year lease rule, which other parts of Government are considering. The rule has been an impediment to community land trusts and long leases.

It is about sitting down with the financial institutions and asking, "Why aren't you lending? If you ain't got the money, how can we help you to access money and how can we lend it on in a way that you regard as relatively risk free but which should ultimately give you a reasonable return?" The money will probably be safer than has been the case, given some of the more dodgy places that banks have seen their money drifting off to during the past five to 10 years.

The Housing Finance Corporation, which I do not think has been a huge success in England, was designed to be a Government-backed body that would raise money in the private markets to lend on to housing associations at fixed rates. The report from the Joseph Rowntree Foundation that I mentioned talks about the need for much longer-term deals. The short-termism of the banks, whereby they swap money and securities, has created the current crisis. If we can find a way to lend that ensures certainty over 40, 50 or 60 years, we should begin to reduce risk and encourage lenders to come back into the fold.

I am not a money expert. I just want to sit down with the financial institutions and say, "What is the risk? We are talking about affordable housing and folk who will pay rents to well-managed organisations, with the back-up of Government support, through benefits, for example." I suspect that some reasons for not lending that organisations are currently being given are smokescreens, because the money simply is not there. I am sorry if my answer was not helpful. We need to be radical.

The Convener: We can identify the problems; the question is how we identify the solutions. Does Neil Cameron want to add anything?

Neil Cameron: In the short term, Highland Council is considering whether we have anything in stock that it could use its underspend to buy and then rent on or sell on a shared ownership basis. That is a positive step.

The Convener: I think that many councils are considering such options, but what you have built is not always a good fit with what councils need.

Neil Cameron: That is the problem.

The Convener: The Scottish Crofting Foundation submission mentions Government loans at fixed rates.

Hughie, you seem surprised by that.

Hughie Donaldson: No. That is exactly what I was talking about.

John Scott: If you were to make one key recommendation, would it be that the Government should reintroduce loans to reignite or kick-start things?

Hughie Donaldson: What we can pull out of the list of possible financial instruments that I have referred to is that not everyone is a crofter and not everyone has land. We have to address the problem of those who have no access to land. Indeed, with regard to Peter Peacock's comments on land, we need to keep up the pressure on land assembly not only in the Highlands and Islands but throughout Scotland. We simply cannot slacken in that respect. Even though Scottish ministers and commissions are the biggest landowners in Scotland, we still struggle with access to land.

We should streamline the grant mechanisms to two choices: those without land go for RHOG, while those who have land go for the croft house grant scheme. The system should be relevant, but not necessarily easy, and backed up with your money, which you know will be recycled over a longer period at a fixed rate.

At the time that the loan element was removed, 358 homes were receiving £7,500, and the awards included 47 repair grants. The loan element was factored into the costs, not the repayments, which went back to the Exchequer. You will not get a more efficient house building system than that.

The Convener: I am not sure that the Scottish Government will find the idea of money going back to the Exchequer hugely attractive.

Hughie Donaldson: Back into the Scottish Homes fund, then.

Peter Peacock: With regard to Hughie Donaldson's point about land assembly, I should clarify that I was not referring to the wider position. I was simply saying that the Highland Housing Alliance and Tulloch Homes had land.

Susan Torrance said that there is a need for new models. Has there been sufficient debate in Scotland over that issue or is the discussion still to be had?

Susan Torrance: I am not sure that the matter has been sufficiently debated. All I can say is that there is an appetite for such a debate and that a number of seminars and so on have been organised. However, talking shops are one thing; even with the best will in the world, it still takes a long time to turn around a supertanker. It might be no bad thing if Government took the lead and tried to get everyone to understand the issues and formulate some new models.

However, my plea is that we do not end up with models that simply support affordable housing provision. The housing market that we have created includes the private sector, which has been a mainstay in assisting with infrastructure provision and land assembly and subsidising affordable housing. If we do not look at the whole system, we are in danger of propping up one element while the other falls off the edge of the precipice.

Neil Cameron: The rural home ownership grants and so on that Hughie Donaldson mentioned are okay for people who own their land, but one of the problems with the rural economy is that too many people are on low wages. If there are any jobs, they are low-wage ones. Instead of forcing people into buying their own homes when they really cannot afford it, we should build them rented accommodation. Whether the private sector should provide those homes through grants and 21-year lease agreements with housing associations, I do not know, but there are various ways of addressing this problem.

The Convener: I wonder whether Susan Torrance has anything to say about councils' allocation policies, particularly in connection with the drive to reduce homelessness. Previous written and oral evidence contained a couple of bits and pieces about tension in some areas.

Susan Torrance: Are you talking about the suggestion that councils might be putting homeless families inappropriately into communities?

The Convener: Yes.

12:30

Susan Torrance: To be honest, there is a lot of myth surrounding that. However, in tackling the current huge homelessness crisis, councils have become stretched and are trying to use every available means.

The alliance has tried to ensure that options are available for everyone. Sometimes, people exhibit nimbyism and other such attitudes because they are frustrated that they do not have many options or that no one seems to be doing anything for them. We need to communicate with communities, let them know that all sectors have to be provided with housing and try to offer solutions to issues such as self-build, the availability of plots, housing for key workers and the rental models that we are beginning to explore only now. I appreciate that that response might be strange, given that we are in a world where things are shrinking and becoming terribly difficult. However, if we do not try to find solutions that involve all the communities, we will run into problems.

Liam McArthur: What about the impact of the loss of the local connection criterion, which is a concern that has been raised with me?

Susan Torrance: I can certainly see both sides of the coin on that very difficult issue. I do not think that it will have a huge impact, because responsible housing providers try to make sensible decisions about who gets houses in communities. Only when very urgent cases are dealt with do people feel that they are being run roughshod over. When you dig down into cases of so-called injustice, you usually find that there is not that much of an injustice. I am not for the local connection criterion, because it was a way of fudging difficult decisions.

The Convener: As ever, please communicate further with us if you wish to bring anything else to our attention. Hughie Donaldson, for example, referred to a paper that we would like to see.

Hughie Donaldson: I should also mention a project located in Kincraig outside Kingussie that has been designed for a housing trust by the well-known architect David Somerville and which will use the timber felled on site for houses. The project should be seen in conjunction with the Government's climate challenge fund. John Rathjen, who is in charge of the fund, told me that he has spent an inordinate amount of money on sustainable housing design, but he needs to get it out into the house building sector. Perhaps the committee could promote that approach.

The Convener: It is not really our job to provide advertisements for private companies.

Hughie Donaldson: But this is the Government's climate challenge fund, which is involved with housing design.

The Convener: That is fine. In that case, we can raise the issue directly with the Government.

I move the meeting into private session and ask everyone to clear the committee room.

12:33

Meeting continued in private until 12:47.

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