SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

Monday 7 February 2000
(*Afternoon*)

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SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE
5th Meeting 2000, Session 1

CONVENER

*Ms Margaret Curran (Glasgow Baillieston) (Lab)

DEPUTY CONVENER

*Fiona Hyslop (Lothians) (SNP)

COMMITTEE MEMBERS

*Bill Aitken (Glasgow) (Con)
*Robert Brown (Glasgow) (LD)
Cathie Craigie (Cumbernauld and Kilsyth) (Lab)
*Mr John McAllion (Dundee East) (Lab)
Alex Neil (Central Scotland) (SNP)
*Mr Lloyd Quinan (West of Scotland) (SNP)
Mr Keith Raffan (Mid Scotland and Fife) (LD)
*Mike Watson (Glasgow Cathcart) (Lab)
Karen Whitefield (Airdrie and Shotts) (Lab)

*attended

THE FOLLOWING MEMBER ALSO ATTENDED:

Dorothy-Grace Elder (Glasgow) (SNP)

WITNESSES

Clive Barnett (NatWest Bank)
Mike Dudman (Lloyds TSB)
Rita Jobbins (Abbey National)
Richard Mason (Britannia Building Society)
Peter Williams (Council of Mortgage Lenders)

CLERK TEAM LEADER

Martin Verity

ASSISTANT CLERK

Rodger Evans

LOCATION

Geoff Shaw Room, Glasgow City Council, Elmbank Street, Glasgow

Scottish Parliament

Social Inclusion, Housing and Voluntary Sector Committee

Monday 7 February 2000

(*Afternoon*)

[THE CONVENER *opened the meeting in private at 14:11*]

14:19

Meeting continued in public.

Housing Stock Transfer

The Convener (Ms Margaret Curran): Everyone should ensure that their mobiles are switched off—I am thinking particularly of our friends in the press.

Welcome to this meeting of the Social Inclusion, Housing and Voluntary Sector Committee. I am pleased to be in Glasgow today to welcome you to this committee; it is a wonderful place to be and I hope that you are all enjoying it. The location has not been chosen simply for my convenience; it is a significant location given the subject of our discussions. The whole issue of housing and housing stock transfer is a matter of priority.

We have a packed agenda today. We usually review evidence straight after we have heard it. I therefore suggest that we move into private session to review that evidence. My main reason for that request is that it will enable us to get assistance from our advisers; it is only on that basis that we can include our advisers on the committee.

As a courtesy to everyone here, I introduce our advisers: Mary Taylor from the University of Stirling, who has been helping us enormously in our work, and Stephen Curtis from the Scottish Parliament information centre, whose work has also been of enormous value. Their role is not to participate in the public work of the committee but to assist us privately, so questions will not be addressed to them in public.

I warmly welcome Peter Williams from the Council of Mortgage Lenders. I am sure that you have been following our deliberations—or reading about them, if you have nothing better to do with your time, on the web, as everyone else seems to do. I am sure that you are aware of the significance of our discussions and the significance of your role and your comments. We are looking forward to your contribution today. Please introduce your staff and give us a brief introduction, before we move on to a series of systematic questions.

Peter Williams (Council of Mortgage Lenders): It is a great pleasure to be here. Thank you for that welcome. On my extreme left is Richard Mason from the Britannia Building Society, and next to him is Rita Jobbins from Abbey National. They represent two of the key lenders in Scotland during the past nine months. Next to me is my dear friend Clive Barnett from NatWest Bank, currently a British, English-based bank, but we do not know what the future holds. On my right is Mike Dudman from Lloyds TSB, whose headquarters is in Scotland. Mike spent two and a half years on secondment to the Housing Corporation. Behind me is my colleague Andrew Heywood from the Council of Mortgage Lenders.

I shall start with a brief comment. Thank you for giving us the opportunity to present our views today. We have been following the committee's deliberations with great interest on the website, as one does these days, in the newspapers and elsewhere. Our business engagement in Scotland informs that interest. Obviously, the mortgage lending industry already plays a key role in a whole variety of ways, not least in funding the rising level of home ownership in Scotland. Of particular relevance to today's proceedings is our role in funding housing associations. Some £850 million has already been advanced to Scottish housing associations and that figure continues to rise regularly.

Our task today is to understand fully and firmly the business environment in Scotland, particularly around the transfer programme, which is of enormous significance to Scotland and to the people of Scotland. Equally, it must be a sound business transaction if it is to have long-term viability for the benefit of all, particularly the residents. Ultimately, business success is secured by the success of those communities and housing organisations. That is what will see us all right in the long term. We are therefore keen to engage in discussion with you to set out or explain issues that may concern members of the committee and to receive your thoughts and views on how the programme might go ahead.

The Convener: Thank you, Peter, for that concise introduction. As I said, we would like to go through a range of questions. If you have any comments or would like to draw any matters to our attention, please feel free to do so. Thank you too for your written submissions to the committee, which have helped us to get our minds round this. In the longer term, if you have any other comments that you think would be of value to us, please send them to us.

You have a lot of experience in the field in Scotland, and your submission indicated that you have also done a lot of work in England. Why do you think that local authorities want to pursue stock transfer at all?

Peter Williams: It is a question of resources and of how far public finance can cope with the situation that local authorities are faced with. There has been a long period of underinvestment, in stock and in the expectations of people living in that stock. The question for us is not whether public is better than private, or vice versa; it is about the totality of the resources available. In our judgment, the scale of demand and of need for those resources is such that private finance will probably be required. We make no judgment about whether that is right or wrong, but we believe that there is such pressure that it will be necessary.

The Convener: Tell us a wee bit about the experience that you have had in England. What have been the strengths and weaknesses of the process?

Peter Williams: I shall ask my colleague Clive Barnett, who has practical experience as a lender, to lead off on that one. The experience has been positive. Very few of the tenants in those organisations that have transferred would say that it has been a bad thing. Most would say that they have noted increased investment, increased vigour on the part of the organisation and even—and it may surprise some people—increased accountability, as tenants are directly represented.

Clive Barnett (NatWest Bank): We have been involved from the outset and have probably led more stock transfers in England than any other lender. We have involved our colleagues from Abbey National and Britannia Building Society in some of the loan syndicates that we have put together. We get involved only if we are content with the business decision; our involvement depends on a commercial decision. On a personal level and on an organisational level, we have been impressed by the way in which the new stock transfers have worked during the past 10 or 11 years.

Without exception, every transfer that we are involved in is working within its original business plan; many have outperformed those plans significantly and have done more than was envisaged, with more new build where demand is required and more improvements. By and large, rents have been kept very much to the lower end of the scale. There is a lot of pressure to keep rents down in England, and rightly so.

From a harsh commercial viewpoint, a successful business is one that runs as a business. By running as a business, a housing association can achieve what is required and can give the tenants good value against the original objectives. Even where there have been one or two financial difficulties, caused by high interest rate levels in the early days of stock transfer, housing associations have been able to resolve those problems by working closely with lenders. From our perspective, stock transfer has been very successful.

The Convener: Do you think that the new housing partnerships differ from the large-scale stock transfers in England? Is the Scottish situation different?

Peter Williams: I do not think so. One of the inevitable questions about new housing partnerships will concern the shape of the organisational framework that is put in place in Scotland. Many of the transfers in England have been quite small, so they are closer to the community-based structures that I think are implied by NHP. The transfers that we have dealt with have ranged from 3,000 to about 12,000.

Mr John McAllion (Dundee East) (Lab): You stressed that a transfer would have to be a sound business proposition before the lenders would become involved. Why do you think that stock transfers will be a good business proposition? What factors would make lenders feel comfortable about becoming involved with a stock transfer proposal?

Richard Mason (Britannia Building Society): Profit is affected by the security of the income stream. Stock transfer represents an opportunity to lend large sums of money secured against the income stream of the property.

Mr McAllion: So anything that threatened the security of that income stream would have a very negative influence on lenders?

Richard Mason: That is right. However, my colleagues say that all sorts of sensitivity analyses can be carried out to ensure that the income stream is robust enough for us still to consider lending against it.

14:30

Mr McAllion: Somebody said that stock transfers in England ranged from 3,000 properties to 12,000 properties. That has not, so far, been the pattern in Scotland, where the stock transfers have been much smaller. What is the view of the lenders on the structures that are being proposed in Scotland? In particular, what do they feel about the small community-based housing associations that often have fewer than 1,000 properties, never mind 3,000? Does that affect decisions on lending?

Peter Williams: Scale is an issue—organisations with limited experience are facing major works and major debt. There is also the question of long-term viability. We are waiting to hear what is in the proposals for Scotland. The commercial market will make a judgment on what is acceptable. As Richard Mason said, people are looking for a strong income stream that is secured by sound assets. Although those assets may be negatively valued in the short term, in the long term the income stream will be underpinned by quality assets, long-term demand in the area and, of course, sound management. It is difficult to prejudge the scale. Some very small transfers have been funded in England.

Rita Jobbins (Abbey National): The smaller an entity is, the more difficult and the less viable it is. Some of the new housing partnerships, by their very nature, will grow in due course. Lenders may take that into consideration.

Mr McAllion: The Kellyfield housing co-operative in Whitfield in my constituency has 64 houses. That was funded, although it has now been taken over by another housing association. That may confirm what you are saying.

What about the proposals for seven local authorities to transfer their entire stock—in Glasgow's case, 87,000 houses? What do lenders feel about transfers on that scale?

Clive Barnett: Given what has been done before, it would be wrong to underestimate the difficulty of carrying out that transaction. Transactions of £1 billion plus are, in any field, corporate or otherwise, extremely large financings. However, if you break down the stock transfer into little bits, you get there in the end. Arguably, it is more economical to transfer the stock as one, which can also maintain the community side of it, if little entities all come to the market at the same time to raise the money as a group.

Funding stock transfer is a big undertaking, but the issue will probably be the value that the commercial sector puts on it. The balance of risks must be right. If it is, the credit status of the transaction should ensure that the transfer can be funded.

Mr McAllion: Could a stock transfer of 87,000 houses be funded by private lending?

Clive Barnett: Yes it could, if it was structured in the right way.

Peter Williams: The Council of Mortgage Lenders recognises the scale issue. In some of the early discussions, we tried to draw the market together to get a view on Glasgow. Among lenders, there were different views about what the shape of the structure might be. However, everybody agreed that, in the final analysis, there was a fundable proposition, albeit—as Clive Barnett has said—a complex and challenging one. We are talking about a large sum of money—£1 billion—to be raised over a stock of dwellings where there are question marks over demand and changes in demand across the city. It is a huge challenge, but we believe that we can rise to it.

Mr McAllion: As you say, that is a very large sum of money. What do you feel about the regulation and monitoring of the organisations that are now in charge of the housing? Do you think that Scottish Homes is an adequate regulator and monitor for housing associations on that scale?

Peter Williams: To date we have been entirely satisfied with Scottish Homes. We agree that there is also a significant challenge for Scottish Homes. The situation in England is exactly the same. The challenges posed for the Housing Corporation by stock transfers make new demands on the staff. The housing organisations are bigger and they are 100 per cent debt financed—they have virtually no assets and are borrowing 100 per cent of what they can. They are delicately poised and run the risk that even a minor change in construction costs, a minor miscalculation on repair costs or a minor fluctuation in interest rates could cause great difficulties.

The environment for the regulator is demanding. In the past, housing organisations have been heavily grant funded, they have been in a reasonably benign environment and they have had significant assets to underpin the transaction. The situation now is rather more difficult and challenging for the regulator. We will be watching to see that Scottish Homes ensures that it can rise to the challenge.

Mr McAllion: What rates of return have you achieved from stock transfers in England? Do you expect to achieve the same returns in Scotland? By rates of return I mean profit.

The Convener: That old-fashioned word.

Mr McAllion: The funders are in this to make money, I take it.

Richard Mason: No funder will tell you the actual rate of return, which, in any case, can be difficult to predict because many factors can affect the margins.

Something to bear in mind in the Glasgow stock transfer is that, because such a large sum of money is involved, practically every lender could take part in it. Competition between funders for that transaction will be less intense than for some of the smaller stock transfers in England.

Mr McAllion: Is there any suggestion that the more the money that is lent, the higher the rate of return that is required?

Richard Mason: The rate of return that is required is normally a reflection of the risk. Peter Williams talked about the risks involved in this sector and the fact that, despite those risks, the sector remains attractive to funders. Because there are many fewer properties involved in each of the transfers in England, if those transfers got into trouble, it is likely that another housing association could take them on. In Glasgow, which has just under 100,000 units, it is extremely unlikely that another housing association will come to the rescue if the transaction got into difficulty. The risks in Glasgow are far greater than those that we have experienced in any of the English stock transfers to date. That affects the requirements for return; the return that funders would look for from such a transaction is probably greater than it would be from a similar stock transfer in England.

Mr McAllion: So if the transfer fails, the stock will have to return to public ownership again.

Fiona Hyslop (Lothians) (SNP): In Glasgow, as you say, the numbers are larger and a lot of finance has to be covered at a greater risk. Obviously, funders have to protect themselves from risk. Our concern, from evidence that we have heard, is that tenants may have to pay more in rents to cover that risk.

What happens if the transfer goes belly up? In England, other housing associations would be able to take on the risk, but what would the risks be in Glasgow, given its size? If the only option in the event of things going badly was a return to public ownership, that surely calls into question the whole point of the transfer being outwith the public sector borrowing requirement, because the only guarantee in case of failure is that the public sector would take it on. What are the risks of stock transfer? Who takes on those risks, particularly in the case of Glasgow?

Clive Barnett: Those are shrewd questions. In a deal of this nature, one has to work out exactly where the risk is taken by the private lenders who back it and other private contractors who may be heavily involved in large-scale contracts to do up housing stock. The transaction needs to be exceptionally robust on day one. If we ever had to take stock back into our ownership, we would feel that we had got the deal wrong in the first place and we should not have entered into it.

The transactions should be conservatively based; there should be a consensus that the transaction is safe. If the transaction then goes wrong, one would—because of its scale—probably have to look to some form of partnership between Government and the lenders to move it back on track, because one would not be able to find another housing association to deal with it. At that stage, one would have to look at what went wrong, why it went wrong, and agree who should take a share of the risk. If that meant that some lenders lost money because the risks that they took on were genuine private sector risks, that is what would happen.

Fiona Hyslop: On the issue of size, what are the main differences in risk across the housing sector? I would particularly like to hear your views on the differences between England and Scotland, between local authorities and housing associations and between large and small transfers. If so much risk is involved in the big-bang solution in Glasgow—100,000 houses—would having smaller bodies be a way of spreading that risk?

Seven authorities are likely to transfer stock at the same time. We are looking to transfer more houses in Scotland in two years than happened under the Conservatives in 20 years. As you have said, the size of the Glasgow transfer results in less competition. Surely we are at the mercy of lenders such as you, in that you have a free market of seven local authorities and you can charge what you like because there is less competition. Is that a reasonable point?

Peter Williams: On a general point, as Richard Mason said, the competition between lenders has intensified massively over the years. The pricing of transfers has fallen to the point where some of my colleagues would say that they find the market difficult to remain in, because the returns have become less attractive relative to other returns. It is a question of relativities.

In the case of Glasgow, we are talking about a large stock transfer and significant risks, which arise not just from housing benefit issues or broad environmental issues; in some circumstances, there are questions about long-term demand. There is the risk in relation to redevelopment—how far the stock will be improved within the costs that are set at the outset. That is to some extent an unknown equation. All those risks will be reflected in the pricing. At this stage, without the propositions on the table, it is hard to conceive how Glasgow will be priced; we will know that only after people have seen the propositions on the table and made their approaches.

If the stock were broken up in a carefully structured way, one bit of stock may not necessarily look more attractive than another bit. Presumably, that would be reflected in pricing, although that is hard to anticipate when we do not know the shape of the transfer. Clearly, the more the stock is broken up, the more one can vary the price and, as a result, the competition. Rita, would you like to come in?

Rita Jobbins: We are focusing on Glasgow, but there are other transfers. As Clive Barnett suggested, we are talking about the fundability of business plans. My point relates to purchase prices. In England, there has been an upward shift, because local authorities have been trying to push up purchase prices. It stands to reason that that could lead to less viable business plans. In Scotland, the focus should be on getting the funding right, as that will ultimately impact on tenants.

Fiona Hyslop: What is the difference in risk between stock transfers in England and those in Scotland?

Rita Jobbins: There are no differences, except that Scotland is focusing on the larger transactions, in Glasgow and in Aberdeen, which we have not mentioned yet. Of course, in England, stock transfers are getting bigger—for example, in Coventry, Birmingham and Sunderland.

14:45

Peter Williams: Fiona Hyslop raises an interesting point. We said that in England, transfers began with the leafy shires and the market became comfortable with that. In other words, experience built up over time, from relatively simple transfers to more complex urban transfers. In Scotland, to some extent, we are starting the other way round—we are starting with complex urban transfers—so it is important that we pick up on lenders' experience in England.

Scotland does not yet have a market for transfers in which one can see transparently who has bid and what form of pricing has been bid, because the market has not yet developed. As the market develops in Scotland, it will be easier to have this conversation.

Fiona Hyslop: You made the point that this process is based on business plans. What sanctions can lenders apply if the assumptions in business plans are not borne out in reality—for example, if demand falls below expectations or if there is pressure to keep rents down, which would mean that returns would be less?

Rita Jobbins: I wish to make it clear that we do not run the businesses. We lend to the entities that run the businesses—if something is not right, it is up to the entities to make it right. Generally, we will approve a business plan on an annual basis, but I stress that we work in partnership—we are not in control of the business. Does that answer your question?

Richard Mason: May I add something to that? What we fund on day one is a 30-year business plan. In that business plan, there are assumptions about rent increases. At the moment, those rent increases typically are the retail prices index plus 1 per cent per annum. The forward projections of those rent increases are usually far less than local authorities' predicted rent increases if the transfer does not go ahead. If the transfer is completed, tenants will pay far less as the years progress.

As funders, each year we review an annual business plan that is based on the original 30-year cash flow. Basically, we agree the plan that the management of the housing association puts forward. We have little input into the plan, and we do not direct the association in any way.

Fiona Hyslop: One issue is that councils may put forward rolling rent guarantees rather than, for example, five years at RPI plus 1 per cent. Obviously, that may give some comfort, but it could be more expensive.

Richard Mason: You mentioned the sanctions that are available to funders in the event of default. Typically, we could negotiate with the Housing Corporation or Scottish Homes the sale of some units, or perhaps a cut in costs in some areas and a pulling back on development proposals, so that fewer units would be developed during the few years after the default. Alternatively, we could negotiate an increase in rents. However, a rent increase is usually the last resort. A series of measures can be taken to bring the business plan back on course if an unforeseen event causes it to wobble.

Mike Dudman (Lloyds TSB): Our experience with the Housing Corporation and of limiting rent increases to RPI plus 1 per cent is that there was a hue and cry from lenders and registered social landlords when that formula was first introduced. However, within one year, just about everybody, with few exceptions, agreed with it.

That would suggest that having what is, in effect, an across-the-board limitation on rent increases—which could be stretched and allow flexibility if circumstances change—could be better than having a rolling guarantee. That would be achievable within most business plans, but partnership between the lender and the borrower—the housing association—would be required to work out how such a proposal might pan out over the life of a 30-year business plan.

Bill Aitken (Glasgow) (Con): A number of the proposals that are likely to be on the table will not be without risk—lenders will have problems of exposure. Apart from the lenders, which organisations will scrutinise the lending proposals?

Clive Barnett: We would expect a full, independent audit review to be undertaken. Some of the English bodies have got rather lazy recently; they have just added up the numbers and said that they add up correctly. An audit of a business plan, however, should be precisely that—an independent review by a recognised body. It should reassure lenders and, I hope, the other parties—Scottish Homes and the tenants—that someone outside the partnership has looked at the plan and not only thinks that it will work, but has thought about the pressures and produced a chart of areas where things could go wrong.

Bill Aitken: Will communication be transparent?

Clive Barnett: It will be transparent in that the contents of the review will—or should—be made available to all interested parties, including the housing association, the lender and, as part of the original registration and regulation process, Scottish Homes.

Bill Aitken: What criteria are used to scrutinise lenders' proposals? Will the existing system, which appears to have operated successfully down south, be applied in Scotland, or is there a need for different scrutiny proposals from those in England? How will the different criteria impact on any final decision?

Clive Barnett: In England, there are differences between, for example, regeneration areas and other types of transfer. The issues raised by larger stocks are very different from those raised by rural stocks. In Scotland, therefore, there should be exactly the same requirements for different types of transfers. I see no difference at all.

Bill Aitken: Is that despite the fact that clearly, in Glasgow, there will be an increase in the element of risk?

Clive Barnett: Two factors will affect the increase in the element of risk. One is the scale of the entity, especially if all the stock is transferred at once, but even if it is done as a group of transfers. The risk arising from the amount of capital spend involved in wholesale rebuilding and regeneration of the stock is far greater than that involved in a transfer in a leafy, rural area of Scotland.

Peter Williams: There are some other aspects that are different.

Bill Aitken: In several contributions you have mentioned the fact that, in Glasgow, the risk would decrease and the scrutiny problem would not be so acute if the Executive agreed to break the stock down into more manageable units.

Peter Williams: It is genuinely impossible to judge whether that would be the case. We do not know what sizes we would be talking about. Bill Aitken may be thinking of one size, while Clive Barnett is thinking of another. Nevertheless, there are a couple of other pieces to this complex jigsaw and we still need to finalise the details and make clear with the Executive where we are.

There are significant differences between Scotland and England, not least in the legal aspects. There is an issue with fixed-rate finance in Scotland, which still needs to be resolved. There are also issues to do with custom and practice. To date, Scottish Homes has built up a significant expertise in transferring its own stock, but its approach has been rather different from the way in which my colleagues have funded transfers in England. Typically, for example, Scottish Homes has seen what is called the asset cover ratio as 1:1. South of the border, the ratio has been 1:1.25, which raises questions.

Crucially, there are questions about what are known as warranties, which in effect are indemnities passed from the current holder to the new holder to cover certain risks. Because it knows its stock so well, the practice at Scottish Homes has been to offer five-year warranties. In England, warranties are for 30 years—the life of the loan. When we approach the large funding market in Scotland, one of the questions will be how we reconcile the Scottish and English approaches.

Mr Lloyd Quinan (West of Scotland) (SNP): As was mentioned, the basis for lending is the guaranteed income stream and the security that that brings. Who do you expect to guarantee the income stream—the local authority, the Scottish Parliament or central Government at Westminster?

Peter Williams: Forgive us; our use of language may have failed us. Let me make it clear: the guarantee will come from the organisation and its business plan.

In a sense, it could be argued that 80 per cent of the income will be guaranteed through housing benefit. That may not be the case for ever, as I hope that people will increasingly not be reliant on housing benefit, but the existence of housing benefit gives all transfer funders an implicit guarantee, so the reform of housing benefit raises serious questions about long-term funding.

Ultimately, however, the guarantee is the rent stream and the organisation's capacity to collect the rent and to create an environment in which people want to live; in other words, the viability of the organisation. We are not looking to this committee, the Scottish Parliament or the Scottish Executive to provide guarantees. We want well-ordered organisations that will deliver what they should on the ground. That is the best guarantee.

Richard Mason: Funders do not consider the income stream to be guaranteed at all. We can, however, satisfy ourselves that the income stream will be maintained. To do that, we examine the socio-economic factors that affect an area, demographic trends, likely changes in demand for the property in the future and the fabric of the property—will the property be around in 25 years? We ask whether the maintenance and repairs programme is sufficient to keep the property in a good state of repair and whether tenants will be reasonably happy with the business plan that the management has put forward.

If, for example, Glasgow had a large number of dilapidated properties, the business plan would need to ensure that those properties would be brought up to a comfortable standard. If tenants are likely to be happy to remain in the properties in the future, the income stream can reasonably be considered as assured, but certainly not as guaranteed.

Mr Quinan: What I was getting at is the fact that 66 to 70 per cent of the income stream in Glasgow will come from housing benefit.

Richard Mason: With the greatest of respect—

Mr Quinan: Let me get to my point. There are two questions here. Either lenders are convinced that housing benefit will remain as it is, or will increase to match any rent increases required during the coming years, or—in the same way as they would want me to guarantee my mortgage with a pension or endowment—they are seeking, if not a guarantee, at least some form of assurance from central Government of the continued existence of housing benefit, which will be the bulk of the income flow in Glasgow.

Richard Mason: It is true that funders derive a great deal of comfort from housing benefit. As you rightly state, in Glasgow, 65 to 70 per cent of income will come from that source.

If we bear it in mind that there will always be a section of society that cannot afford to pay the rent on such properties, whether it is housing benefit or some other form of income supplement that makes up the shortfall, it becomes less important than the likely demand for that property in the future. If we can be reasonably assured that people will want to live in the property, and that it is of a habitable standard, is windproof and watertight and provides a comfortable home, it is reasonable to assume that people will continue to want to live in the property.

The subsidy or income from housing benefit or from another source to cover the rent for those who cannot afford it is a focus of concern for the future, but it would be unreasonable for funders to expect housing benefit to remain in its current format for the next 30 years.

Mr Quinan: So housing benefit is critical as a comfort for lenders? In that case, can you give me your thoughts on how, or whether, you believe the system requires to be reformed? If it requires to be reformed, how could assurance be given to lenders that 66 per cent of future income from this city will be guaranteed by central Government?

Peter Williams: I will deal with some of those questions, as I have been involved in that area. You were asking how we would reform housing benefit.

15:00

Mr Quinan: First, do you believe it requires reform? Secondly, how would you reform it?

Peter Williams: There is no doubt that housing benefit is unsatisfactory in lots of ways. It is probably one of the highest forms of taxation in the UK: if someone earns an extra pound, the rate at which housing benefit is withdrawn is around 94 per cent—people keep 6p of housing benefit for each pound of increased earnings. Its delivery is also often unsatisfactory. People frequently do not get benefit when they should, and it can be delayed.

The best brains in the UK have been confronting the question of housing benefit reform. It would be beyond me to offer the committee a view about how best that should be done. We are, however, engaged in discussions, and the Chancellor of the Exchequer suggested moving to a housing credit system, which would be rather like the working families tax credit, but a specific housing credit. Potentially, it would be a universal housing allowance, and would cover not just tenants but home buyers. In our view, we need a much more flexible subsidy system than the current housing benefit system, which traps people in particular properties in particular locations. We want something that people can get out of more easily without such punitive rates of tax. We have continued—and I firmly believe that the Scottish Parliament should also do this—constantly to remind those in the Treasury in Westminster that there are constituencies beyond London with an interest in the future of housing benefit.

Because of the serious issues involved, the system could be restructured with entirely Scottish and Welsh perspectives on housing benefit. Both those countries have high levels of benefit dependency. It is a much more serious issue than some people down south appreciate, yet your access to the debates on the system is much more limited than it should be.

The Convener: Thank you. That point was well made.

Mr Quinan: Do you expect housing benefit to be reformed?

Peter Williams: Yes.

Mr Quinan: In Glasgow, there is reduced demand for council housing. Of all the existing proposals, would not a straightforward private finance initiative scheme be the best option?

Clive Barnett: There is some merit in considering that. In the decision whether we should be involved in such a transaction, my key judgment will consist of pricing the risk of long-term demand in such a big area. If that can be underpinned through a hybrid PFI, perhaps involving a transfer of 95 per cent of the risk, but with demand risk staying with the local authority, or if it is a partnership risk, that could be a solution. It would be not strictly a PFI, but a son of PFI. It could assist us in how we deal with future risks, the biggest being the demand risk—in other words, the question of what the demand will be over which period, and how to price the transaction properly.

Mr Quinan: Would you consider PFI as an option that should not be removed from the game at this stage?

Clive Barnett *indicated agreement.*

Peter Williams: I sense that having a PFI scheme for housing benefit would be well beyond anything that has been done previously with PFI and housing. I accept Mr Quinan's underlying point, which is that it is well beyond what has been achieved with transfer funding.

People would gravitate towards the traditional transfer route. For some people, there are clearly major political concerns about PFI. I suspect that one point about transfers is that there has to be comfort politically. We are talking about people's homes. Under transfer to the properly regulated, managed and controlled non-profit-making organisations, which people understand and are familiar with, there is much more comfort compared with PFI, which still seems to be something of an unknown quantity.

As a housing person, I would say that PFI is unknown to the consumer. I do not know whether my colleagues have other opinions.

Richard Mason: When we consider that the Glasgow stock transfer is so different from anything that has proceeded so far in England, to introduce another element of complexity, PFI, is probably a step too far at this stage.

Robert Brown (Glasgow) (LD): Central to the discussion on PFI and stock transfer is the demand element of risk. Presumably, it is fair to say that in Glasgow, where demand is low in many of the peripheral schemes, that is a significant point of consideration. How do you respond to that factor in the context of pricing and stock transfer? How do you reduce the risk or value the risk, and how is that reflected in discussions?

Clive Barnett: It is probably not an issue of pricing, but an issue of whether the transaction seems to take widespread comfort from the private lenders, to make the transaction a success full stop. Pricing is a secondary consideration.

I would much rather that there was a consensus on our belief in the long-term projections on the stock but, to an extent, there will always be a element of not being totally comfortable about supporting the long-term demand, but living with it and taking a risk at a certain price. I hope that the funding could then take place at a competitive rate.

Peter Williams: When the Council of Mortgage Lenders had its round robin of three meetings in London and Glasgow to give lenders a better understanding of the situation in Glasgow, we strongly stressed the need for a decent long-term demand study.

I am not aware of anyone who has undertaken a 30-year demand study. It is an enormously ambitious enterprise to look out beyond five or 10 years of demand. With lenders taking a 30-year view, and with such a big stock, we have pressed the city to undertake systematic work. I believe that it is under way at the University of Glasgow as we speak, and we will be interested in the results. The demand side is central.

Robert Brown: Linked to that, the success or lack of success of management is crucial. Presumably, you, as non-housing people, have difficulties in judging that, in the context of the argument about the size of stock and about the wholesale transfer of all the houses in Glasgow versus transfer on a more manageable level in bits and pieces, perhaps run by community-based housing organisations. What is your view on that?

Peter Williams: No other colleague was looking at me, so I assume that they were hoping that somebody would field that question. Management is central to all propositions. Some people would go so far as to say—like the Prime Minister saying "Education, education, education"—"Management, management, management", and that the strength of all transactions is in the quality of the management.

Obviously, an element of risk is involved, as this is relatively untried. It might have been tried within the confines of a local authority—not just in Glasgow, but any transfer—but untried outside those parameters. Some people say that they would be more comfortable if the stock were to be transferred to an existing organisation that was already operating. Again, I am not talking specifically about Glasgow.

There is also a question about the scale of the new enterprise and its responsibilities, not least for major refurbishment and redevelopment. Again, that may not have been within the expertise or understanding of the individuals involved. When lenders are considering transfers, they are looking for people who have relevant expertise in relation to such issues.

Richard Mason: Britannia Building Society has funded several stock transfers in Scotland, ranging from just more than 200 units to a couple of thousand; the largest one that we funded was Shire Housing Association. In considering the balance of management on the board there, we have always tried to ensure that tenants have a significant involvement and that there is a spread of expertise from the professions—solicitors, accountants and so on.

However, Glasgow is such a huge body that it will be difficult to get the experts who are needed in all areas—finding those with the right expertise in the maintenance and repair of 75,000 to 100,000 units is a big undertaking in itself. We must reconcile that requirement with the need for tenant involvement on the board and the need to stay in touch with the needs of tenants in the 38 communities that are represented in the Glasgow stock transfer. I cannot offer any advice on that, but it will be a difficult balancing act for any chief executive to pull off.

Robert Brown: I shall ask the question in a slightly different way, which relates to your appetite to lend in Scotland. I get the impression—rightly or wrongly—that we have an apple-core scenario. The smaller association with 64 units is not wildly keen, the standard-sized ones in the middle think that it is okay, and the bigger ones will involve a more complicated structure. How keen are you to lend at the Glasgow size, if I can put it that way? It is good money, obviously.

Clive Barnett: My organisation covers a range of products. We are less likely to fund the smaller organisations than the larger Glasgow mass transaction. We would not necessarily be looking only at the lenders around this table; if the risks were right, we might want to include institutional support through bond issues or hybrids of that. The very scale, if the transaction is right, might open up wider markets than simple lending would do. That is probably what we will need to do.

Robert Brown: Will that produce any interest-level savings because of the wider market? Will it flatten out the increase that you mentioned before?

Clive Barnett: There are different markets. The bond market, being fixed rate, will be at a comparable price to what banks and building societies would lend to. That seems to be the case at the moment. More important is the issue of widening the base to ensure that a competitive element is retained despite the size of the funding.

One example is particularly relevant—the purchase of the Housing Corporation's loan book in England, which is a £1 billion-plus transaction. To believe that no competition was involved in that would be rather silly. It could be argued that there was an awful lot of competition. Nine people put forward proposals, including my bank, and three were shortlisted, two of which were seriously competing against each other with £1 billion-plus figures. If the structure is right, it is a bit of a fallacy to say that there will not be a form of competition for the funding.

Robert Brown: So the organisations produce the competition.

Clive Barnett: Yes.

Robert Brown: Are there any situations that you feel would be unfundable in principle? Have you walked away from anything in the past, or do you have criteria that could be applied to such a situation?

Richard Mason: It is probably timely that you ask that question. One of the very last stock transfers in England suffered because the Department of the Environment, Transport and the Regions had recommended that the discount rate be cut from 8 per cent to 7 per cent for certain leafy shire stock transfers. With that particular stock transfer, the discount rate went lower than 7 per cent. Funders found that unpalatable and initially the transfer suffered from a lack of bids. It is important to get the purchase price right.

15:15

Rita Jobbins: We have just walked away from another transaction where the purchase price was too high and there was insufficient asset cover. That is what I was alluding to earlier.

Peter Williams: This is a classic example of where markets get going. Having observed the market rolling forward reasonably comfortably, local authorities have ambitions to up the price so that they get a greater capital receipt. That is understandable, for all sorts of reasons. However, given our earlier discussion about squeezing up rents and housing benefit, it puts considerable stress and strain on the business plan. If one adds to that the other related risks, such as demand, one can create a situation in which people are less comfortable, fewer people compete and the price goes up. At the moment, frustratingly perhaps, every transfer that I am aware of has been funded.

Robert Brown: How important is it that there should be a net asset value to give you comfort, security and sanctions if something goes wrong, as opposed to the income stream aspect?

Rita Jobbins: It is absolutely vital.

Robert Brown: If you had a negative asset, perhaps because of the dreadful condition of the stock, how would that affect your thinking?

Rita Jobbins: Abbey National would not fund that. We have funded negative value stock transfers, but only when there has been a Government dowry in respect of the initial improvements. We have funded five such transfers with estates renewal challenge funding.

Robert Brown: So you are considering the overall balance, taking account of input from on high, as it were?

Rita Jobbins: Yes. At the end of the day, we must have asset cover.

Robert Brown: I have one more question. We have heard evidence about the growing difficulties and higher costs of finding enough joiners and bricklayers. Does that aspect cause lenders concern or feature in your calculations?

Clive Barnett: If we had a pound for every pound that was overspent on the Eurotunnel project, we would be rich men.

Taking on lots of transfers throughout the United Kingdom that require considerably more capital spend than the rural transfers that have been done so far can only inflame the situation. It is proving difficult, particularly in the south-east of England, to get bricklayers and other skilled tradesmen so that housing associations can do new build within the current grant levels, despite the fact that, a few months ago, they bid to do that at those levels. That part of the equation needs to be thought through seriously.

Peter Williams: In general, there will be a large appetite for private finance in Wales, Scotland and England. As far as the industry is concerned, at this stage we believe that this is fundable. The challenge for the industry is to find the right structures and approaches to fund it. At a simple conceptual level, however, it is a fundable proposition.

Mike Watson (Glasgow Cathcart) (Lab): I would like to touch on the question of developments in Scotland and the extent to which your experience in England and Wales will be wholly relevant. My question is directed particularly at Mr Williams. In the paper that you submitted, you highlight the fact that the development of housing in Scotland—particularly social housing—has been different, as is the proportion of rented to owned properties.

Glasgow's being a case apart has been mentioned several times, and you say that

"the risk of ballot defeats must be considered higher than suggested by recent experiences in England."

That impacts on something that Mr Mason said about the importance of tenants and their involvement. How is the situation in Scotland different from what you have encountered in England, and how does that affect your thinking?

Peter Williams: We are not applying different thinking. At the CML—and especially in CML Scotland—we have been trying to gain an understanding of all the different elements, such as the warranties that I mentioned, and the structures that might come about under the new housing partnerships.

There is uncertainty in Scotland because proposals are yet to be put on the table. We have not yet had a market, beyond the original Scottish Homes market, which we can fund massively. We regard the Scottish Homes market as rather different: a typical Scottish Homes transfer is of a maximum of only 3,000 dwellings, which will be in fairly good condition and will have been well managed by a landlord with a good track record. The future is more of an unknown quantity.

At this stage, we are gathering information, gaining understanding, holding lengthy discussions with the Scottish Executive and Scottish Homes, looking forward to the guidance that the Scottish Executive will issue on transfers, and putting in place the elements that will ensure that, as proposals come forward, we have the most competitive and efficient market so that the price can be competitive, and that there are different options for structures, allowing the market to develop. However, members will forgive me when I say that it is slightly difficult to predict the problem. The legal position will require some work and some compromise between the approach that has typically been adopted here and the approach adopted elsewhere.

Mike Watson: I accept that, but I noticed that the secretariat for CML Scotland includes yourself, Mr Heywood and Ms Hoyle, all of whom are based in London. You obviously have people in Scotland who are sitting on the minister's housing advisory group—why are they not part of the secretariat, to give the Scottish feel that might be necessary?

Peter Williams: The secretariat of the CML is very small—there are only 23 on the staff. It is hard to spread them across the United Kingdom in a way that people understandably and rightly might expect. CML Scotland's membership represents all Scottish lenders—all those based in Scotland and all those lending in Scotland. They will be represented on the housing interest group. There is not a problem with supposedly English influence.

Mike Watson: It was not English influence that I was worried about, but a lack of a full appreciation of the Scottish situation.

Peter Williams: I have been reasonably well immersed in Scotland, not least in my earlier roles in the Chartered Institute of Housing in Scotland. I think that we can cover the Scottish situation, but I agree that we can always learn.

Mike Watson: I would like to touch on competition and the cheapest way of borrowing. Figures show that, traditionally, the Scottish financial institutions have dominated the market in Scotland, but now the big hitters from south of the border such as Abbey National and Britannia are moving in. What will be the effect of that on the cost of borrowing, given that the market has expanded by between £4 billion and £5 billion?

Peter Williams: Clearly, there will be more competition. It has been very noticeable that all the financial organisations that are based south of the border have been staffing up north of the border. My colleagues may care to comment on pricing and terms.

Richard Mason: Over the past couple of years, we can safely say that there has been a substantial reduction in the margin charged to Scottish housing associations, following the involvement of Britannia and Abbey National.

Mike Watson: Without necessarily speaking for your own organisation, are larger lenders typically cheaper to borrow from?

Richard Mason: The easy answer to that one is no. It does not always follow that the largest lender in the sector is able to offer funds at the lowest cost. Britannia is not a very large organisation; it is, I think, the second largest building society, but we arrived at that position following the conversion of the first eight. We have, however, been very competitive in providing low-cost funds in the past. It is horses for courses: one lender will have an opinion on a particular business plan and will offer competitive terms while another larger lender may choose not to; the next transaction that comes up, it will be the larger lender that offers the competitive terms while the smaller lender does not.

Mike Watson: Are larger landlords typically cheaper to lend to?

Mike Dudman: The cost of managing a £30 million facility is probably not much greater than the cost of managing a £3 million facility. Size therefore becomes quite an attraction in terms of the possible return. Different lending institutions, whether they want to lend in Scotland or England, may have different motivations. Almost all the money lent in England has come from domestic banks rather than from foreign banks such as the big American, European or Japanese banks. Different UK-based banks have different philosophies. Some are moving towards commercial banking; some are moving towards the retail and personal banking side.

The motivations for getting involved in social housing are very different. The types of transactions that different banks will fund are different. The bank that I represent—Lloyds TSB—does not historically have a tremendous appetite for stock transfers, but we regard lending to traditional housing associations, as we have done in Scotland, and getting involved with the new housing partnership transactions, as an extension of our community-based attitude towards banking. It makes sense to us. The size of the transaction will have some impact on the return.

Mike Watson: And its consequent attractiveness.

Mike Dudman: Yes.

Mike Watson: Mr Williams said that a number of organisations were staffing up north of the border. Does that mean that the CML or any of its member organisations have already had discussions with local authorities in Scotland? You will be aware that the seven pilot projects have a mix of the large and the small, the island and the mainland, and the north and the south.

Peter Williams: We have had discussions, and individual lenders have done so as well. For example, we talked to consultants from Aberdeenshire, to scope out what the lending market was doing. As I understand it, no detailed proposals have yet been put on the table and released to lenders. Our discussions have been a way of getting involved early. Lenders all take comfort from early involvement and from visits to organisations and to the setting so that they can get a feel for what they might be lending on.

Rita Jobbins: I have been up to Aberdeen. However, as Peter says, it is very early days yet. Things were only at the stage of a feasibility study, but at least there was a swapping of ideas.

Mike Watson: In your paper on housing stock transfer, I noticed:

> "To arrive at a fundable proposition, lenders have found that early involvement has been helpful in that it enables the transfer organisation to better assess how to raise funds".

Do you see that as a two-way process?

Peter Williams: Yes.

Rita Jobbins: Yes.

Mike Watson: Mr Mason talked about tenant involvement. The paper on funding social housing says that

> "the risk of ballot defeats must be considered higher".

In a local authority quite near where we are at the moment, the ballot is likely to be close. For the sake of argument, let us say that that ballot was won with 55 per cent of the vote. How might that influence your thinking? Perhaps that was a bad example. If, in a typical local authority, there was a narrow vote in favour, would that influence your decision to become or to remain involved?

Clive Barnett: A ballot in a city the size of

Glasgow would need to be thought through, because of the scale issue. When the result has been tight, we have tried, along with the management, to understand the reasons for that. If there is a very low turnout, people might have been under the impression that, by staying away, they were saying yes. That is the nice way of looking at it.

Mike Watson: That is a dangerous way of looking at it.

Clive Barnett: We try to reason it through. Stock transfers have already been carried out south of the border. Some have been going on for many years, without difficulty.

15:30

Richard Mason: It would be useful to speak to tenants who have been involved in stock transfers south of the border, who might initially have preferred that the transfer did not go ahead. It would probably be found that most of them were pleased with what had happened. Properties have been improved, there is more accountability, communication with landlords has been better and tenants' involvement has increased. If they were balloted five years after a stock transfer, most people would probably say that it had been a great thing.

Dorothy-Grace Elder (Glasgow) (SNP): I am not a member of this committee, but the convener has graciously invited me to ask one or two questions.

Earlier, Peter Williams said that at this stage, he finds it hard to conceive how Glasgow will be priced. There is always the risk that one bit of the stock will be seen as more attractive. Given that it was reported, in 1996 I think, that 47 per cent of Glasgow's council housing is damp, what percentage of Glasgow's housing would you, as an investor, call attractive?

Peter Williams: I genuinely do not know.

Dorothy-Grace Elder: You must have some idea.

Peter Williams: I do not know—I have not got that close to it. It is a question that individual lenders will approach, as and when those opportunities arise.

Dorothy-Grace Elder: To rephrase that question, have you ever dealt with a transfer—even on a small scale—in which anything like 47 per cent of the stock has had extreme damp?

Peter Williams: I will pass that to a colleague who might have done.

Rita Jobbins: We have done six transfers. That would be the case with estates renewal challenge fund—ERCF—stock transfers, which are negative value stock transfers. That was supported by Government dowry, which meant that on day one, we had our asset cover.

Dorothy-Grace Elder: There was an earlier reference to pricing and so forth, in relation to housing benefit. Someone mentioned that—obviously—the stock would still be attractive once you had effected improvements. Has there been any effect on homelessness in those transfers, given that some of them, as you were explaining, are in the leafy suburbs?

Peter Williams: Some organisations have been able to provide more—and better—housing. That has been a great assistance to people who do not have a home or those who do, and are not giving it up. One of the issues for many people is giving up a property that is untenable.

Fiona Hyslop: Would it be reasonable to say that you are interested in the income stream, rather than the ownership of the property? Would you be interested, therefore, in other forms of lending, as long you had a guaranteed income stream over a period? In other words, ownership is not necessarily the most important part of the deal.

You talked a lot about the asset value. In one of your papers, you talked about a typical asset value of 125 per cent of the loan. Given the situation in Glasgow, I doubt that we will reach that kind of valuation. There are two sides to it. First, if you have a decent package that is not necessarily stock transfer, where could you be guaranteed income streams? Are there forms of housing finance, other than stock transfer, that you would be prepared to engage in?

Secondly, if so much is reliant on asset value, particularly in Glasgow, would you have to look at other forms of asset security in Glasgow, other than the value of the stock?

Peter Williams: You are alluding to the Scottish National party's public service trust arrangements, which are still caught by public spending constraints. For us, this is about practical issues, such as what can we fund that is allowable. As I understand it, there would be constraints on that, from your point of view.

The appetite to fund only on income stream varies among lenders. Building societies are much more concerned with asset values as well, partly by statute.

Richard Mason: By statute, the security must represent at least 100 per cent of the value of the loan.

Fiona Hyslop: Are some lenders less concerned about the asset value?

Peter Williams: I think that I would be right in saying that attitudes to asset cover even vary within the banking sector. Some organisations, particularly those that have significant commercial lending expertise or indeed experience of the private finance initiative, might be more comfortable with income stream lending; others less so.

Fiona Hyslop: From that point of view, might the building societies be more concerned about the Glasgow deal, because of the potential problems with asset values?

Richard Mason: It does not always necessarily follow that because we are a building society, we are more concerned about asset cover. It is fair to say that all the top 10 lenders to the social housing sector insist that asset cover of at least 125 per cent is present on every transaction that they undertake. We fall within that band as well.

Fiona Hyslop: So a lot depends on how you value the assets, which is where the games can be played—you can push rents up or value at a lower level, to satisfy the deals that can make the finance.

Rita Jobbins: If you cannot get one-to-one cover, under the capital adequacy rules, it ceases to be 50 per cent weighted; it is 100 per cent weighted. In other words, the margin that you charge is effectively twice as much.

Mr Quinan: Given the amount of renovation needed by the Glasgow stock, would it be fair to say that, to achieve the 125 per cent, you would be looking at securing the asset on the developable land that came with the housing? We already know that there are plans for the demolition of a large part of the stock. Whether that is prior to or post stock transfer, it will give you access to developable land.

Is the fact that, as your evidence made clear, you are not interested in owning the bricks, mortar, concrete and steel of Glasgow's housing stock, an essential part of your valuation and your decision? You are interested in the income stream—if that requires to be augmented by the disposal of the land that you will gain through stock transfer, is that what will tip the balance towards your decision to lend?

More important, will that be essential to any deal, to gain the 125 per cent that you require? Will you need the right to dispose of some of the land?

Clive Barnett: What is essential is that the balances of the risks are such that the private financiers feel comfortable with the overall business plan and the cash flows against it.

Seen in a different light, asset cover for stock transfers is really a valuation of the income streams. In England, because stock transfers are 100 per cent debt-financed, lenders are asking for a margin for error. We do not want to repossess the properties—that is the last thing on our minds. If a transaction is funded 100 per cent, the first time that something goes wrong, one is in default, as there is nowhere else to go. In England, we have said, "Look—this is social housing, involving tenants and homes. Therefore, we cannot possibly lend on a directly flat basis." That is why we want asset cover that is a reflection by a professional valuer of what another social housing landlord could do if it took over the stock.

That remains a critical judgment, even in Glasgow. If the management messed up the transfer, what could different management do with that stock? The answer should be that the project is viable.

However, I recognise that Glasgow is different—housing numbers may go down and a large amount of spend is probably required in the first five to seven years. I imagine that we will have to take a slightly wider approach than simply saying, "Well, we won't lend unless we get 125 per cent cover from day one." We will have to forecast on the basis of sustainable demand and make assumptions about what the cash flow will look like once we have undertaken the repairs and improvements, so that we are comfortable with the position. It might take a different class of lender to say, "Right—we are prepared to take the capital spend risk in those early years." That risk is different from the long-end risk and is probably more to do with spending money, getting work done within a set price and getting value for that money. One of the ways in which we might be able to support the overall economics during that period in particular is to consider different solutions, perhaps by cross-subsidising different parts of land.

Mr Quinan: Are you saying that an essential part of stock transfer could be the exploitation of developable land?

Clive Barnett: Yes.

Peter Williams: But equally, the asset value goes up over time and people must make a judgment about how quickly it does so and whether they are prepared to take some of that early risk.

I think that Richard Mason wants to come in on this point.

Richard Mason: Speaking for Britannia, I personally would feel nervous if a business plan were fundable only on the basis that tracts of land were sold off to private developers. The business plan must be robust, relying solely upon the income that is to be generated from properties that will be popular and that will remain in demand by Glasgow tenants in future. Frankly, I would not be interested in funding a business plan that relied on demolishing property and selling off the land.

Mr Quinan: That was not really my point. However, a number of demolitions are built into the plan—the question is merely whether that land becomes part of the deal, as Peter and Clive explained.

The Convener: I will bring in John McAllion and then I will ask some questions.

Mr McAllion: I want to pursue the concept of the failure of the management. What could any other social landlord do if the business plan collapsed after six or seven years?

Peter Williams: I will answer part of that question. In Scotland, a procedure for insolvency is not yet in place, although such a procedure exists, in statute, in England. It potentially exists in contracts in Scotland, but requires to be enshrined in statute. Under the English insolvency procedure, there is a period during which the regulator has the opportunity to transfer the failing organisation to another body.

Mr McAllion: We are talking about Glasgow. Surely you would not transfer 85,000 houses to another body.

Peter Williams: I appreciate that point, but the stock could be broken up. For example, a consortium of other social landlords could come together, or one could bring in new management to persuade everyone that a viable opportunity existed that could still move forward. There is a range of different approaches. One could not suddenly say, "Here are 85,000 houses—they're yours."

Mr McAllion: No—my point is that if the income stream had not reached its targets and you became distressed, because your investment was at risk, you would expect whoever took over the responsibility to get the income stream back on target. How would they do that? Would they raise the rents?

Peter Williams: Not necessarily.

Mr McAllion: How else would they deal with that situation?

Peter Williams: Empty properties could be sold, or other—

Mr McAllion: They would sell off properties?

Peter Williams: Empty properties could be sold.

Mr McAllion: Through private sale?

Peter Williams: Yes, through private sale. Also, as Richard Mason said, one could delay development programmes—one could take a variety of steps.

Mr McAllion: The private sector would not be interested in purchasing derelict, damp-ridden tenements—it would want the best property available.

Peter Williams: Yes, but if property that was part of the long-term plan was still empty, one might be able to dispose of it. No one wants to get into that circumstance. I appreciate why you are asking these questions.

Mr McAllion: We need to know the answers.

Earlier, I was struck by the phrase "a partnership risk", which someone used. As soon as I hear that phrase from the private sector, I know that it wants the public sector to pick up the tab, because the private sector's profits keep coming up—that is what "partnership risk" usually means.

Peter Williams: No—in the long run, the real risk is that the NatWest, Britannia, Abbey National or Lloyds TSB becomes the owner, puts management in place and runs the plan for a long time. The last thing that any of my colleagues round the table want is—

Mr McAllion: Is that the ultimate sanction?

Peter Williams: The ultimate sanction is that the company will take control, but that is the last thing that these companies want to do.

Mr McAllion: I just wanted to be clear about that point.

15:45

The Convener: As the witnesses know, we have been discussing the right to buy recently. What is the witnesses' view of the proposal to extend the right to buy? Will that have an impact on their view of the stock transfer proposals?

Peter Williams: The right-to-buy proposals are so widely drawn that that is a difficult question to answer. For example, the retrospectivity clause is recognised in the consultation paper as a potential cause for concern. The Executive recognises that it needs to find a way to satisfy all parties about that and, when we make our submission, we will put pressure on the Executive to do so.

The right to buy has an impact on transfers, as what would be assured tenancies will become single tenancies with, potentially, a right-to-buy entitlement. As my colleagues would say, usually the proportion of assured tenants goes up over time and the proportion of tenants who carry a preserved right to buy goes down, so that the long-term viability of the organisation rises over time. We must consider the implications of that.

In Scotland, one could adopt the slightly less favourable right-to-acquire entitlement, which has been put in place in England in transfer organisations, to deal with new tenants having an opportunity to buy their homes. However, the right to acquire captures more clearly the spending that would have been undertaken on the dwelling. One problem with stock transfers is that a huge amount of money is put into each dwelling, which may then migrate out of the door at the first opportunity. That point must be carefully considered.

The Convener: If the right to buy is incorporated, will that alter your decisions?

Rita Jobbins: It could do so, which is why we must consider the retrospective implications of right to buy. Some business plans might not now be deliverable and some registered social landlords might not be viable, which concerns us as we have some on our books.

Peter Williams: Equally, we recognise the desire to give people the opportunity to buy their home if they wish. There is also an issue about the organisation receiving a capital receipt that it could then feed back in.

The Convener: I wanted to know whether the incorporation in the package of the right to buy would affect your financial judgment of the viability of a project, and you say that it would, or that it might under certain circumstances.

Fiona Hyslop: Rita Jobbins mentioned Aberdeen, where there is great demand in the housing market and high house prices. The right to buy would have a major impact on stock transfer in Aberdeen. Could the witnesses comment on that?

Rita Jobbins: I have no idea—it is too early to consider how that would impact on the business plan. I suspect that it could cause problems.

The Convener: I was going to say at the end of this item that we might write to you on certain subjects, and keep in touch with you.

Rita Jobbins: The paper says that the take-up of the right to buy would be quite low. However, I guess that there will be pockets where the take-up is much higher. That point must be carefully considered.

The Convener: Thank you.

Throughout your presentation, you talked about challenges. You want Scottish Homes to rise to the challenge and you have put down one or two gauntlets to housing management in Scotland. What challenges face Scottish Homes and the management of community-based housing in Scotland?

Peter Williams: If new housing partnerships go ahead, there will be a huge increase in the overall regulatory burden and in the regulatory skills required. Scottish Homes must be comfortable that it can manage that burden over a long time. If lenders believe that Scottish Homes can manage, they will be more comfortable about their arrangements with their customers.

Scottish Homes recognises that fact and intends to give a lot of support to transfer organisations. There is an issue about the staffing, skills and resources that will be required by Scottish Homes to manage what might be a very large programme—there have been similar discussions about skills and staffing in the Housing Corporation in England, where Mike Dudman worked.

The Convener: As we embark on this new process of housing in Scotland, what is the biggest opportunity and what is the biggest risk?

Peter Williams: There is a huge opportunity—do not let me dominate the discussion—for people to have the homes that they deserve. Ultimately, this is about what can be achieved for people and their homes. The challenge for the public and private sectors is to deliver reasonably what people rightly expect in the 21st century. We all want to combine our skills and resources to do that. People have been waiting; now it is time to deliver.

The Convener: What is the risk?

Peter Williams: The risk is that we get it wrong. We need to approach this carefully, because if it goes wrong, it is the tenants who will be in the firing line, in one way or another—I would hope that tenants would not lose their homes, but their expectations might be reduced. We want to ensure that we deliver what people deserve.

The Convener: I appreciate that you are committed to providing housing for many people. However, in which area do you think that more work is needed? We are scrutinising the proposals for delivering the homes to which we are all committed; which area demands focused attention?

Peter Williams: I will have to think about that—it is a very good question. I do not know whether any of my colleagues can offer an instant view. One factor is clearly the regulatory resource to which you referred. It will be crucial that there should be the right management skills and structures within the organisations. The key factor will be that organisations should have the right accountability and governance structures, so that organisations that go wrong can right themselves and the problems that arise can be addressed. Nobody can anticipate the problems that will arise over 20 years—interest rates, housing benefit reform, long-term demand and disrepair costs cannot be known in advance—but it is important that organisations are well structured and managed, and are properly accountable to their users and residents. That is a quick response.

Richard Mason: The biggest challenge arises from the fact that tenants are moving from an environment in which they have no choice—council houses or flats were available on a take-it-or-leave-it basis—to one in which they will have a lot of choice. They will move from one housing association to another, or to the private sector or home ownership, and sometimes then back to a housing association. The challenge for the management of housing associations and, in future, local housing companies is to provide accommodation that tenants want. As long as there are happy tenants in a secure, quality environment, there will be a rental stream, and as long as there is a rental stream, our lending is safe.

Mike Dudman: The issue of best value comes down to whether one can access sufficient capital to carry out repairs and maintenance and bring up the housing stock to the condition that people deserve—there is too much damp and condensation in properties at present. There is a cost attached to borrowing money, but it might be better to get capital into the system, and to fund the borrowing costs through rents, than not to have any capital available at all.

The Convener: Thank you for answering our questions in such a straightforward and candid manner. Your presentations have been very helpful for our investigation. We will probably write to you.

Peter Williams: Thank you for the opportunity to speak to the committee.

The Convener: We will discuss in private the evidence that we have heard, after a five-minute break.

15:53

Meeting adjourned.

16:03

Meeting resumed in private until 16:43.

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