

SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

Wednesday 1 March 2000
(Morning)

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SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

⌘ 9th 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

WITNESSES

Allan Ainslie (Valuation Office Agency)

Alex Baird (Royal Institution of Chartered Surveyors in Scotland)

Douglas Cameron (Royal Institution of Chartered Surveyors in Scotland)

Rosemary Carthy (Valuation Office Agency)

Paul Letley (Royal Institution of Chartered Surveyors in Scotland)

Alistair McCracken (Royal Institution of Chartered Surveyors in Scotland)

Lynne Raeside (Royal Institution of Chartered Surveyors in Scotland)

CLERK TEAM LEADER

Martin Verity

ASSISTANT CLERK

Rodger Evans

LOCATION

The Hub

⌘ 8th Meeting 2000, Session 1—held in private.

Scottish Parliament

Social Inclusion, Housing and Voluntary Sector Committee

Wednesday 1 March 2000

(Morning)

[THE CONVENER *opened the meeting at 10:19*]

The Convener (Ms Margaret Curran): I welcome everyone to the meeting. I particularly welcome the witnesses from the Royal Institution of Chartered Surveyors in Scotland and thank them for their written submission. I apologise for the weather, although it is unusual to apologise for sunshine in Scotland. We did not deliberately sit the witnesses in direct sunlight to make them feel under pressure.

We have a certain routine for questioning witnesses. I will ask the witnesses to give a brief introduction, then I will kick off and my colleagues will ask questions after that.

Before we move on to housing stock transfer, we must deal with formal committee business. Do members agree to take item 6 in private, so that we can reflect on the evidence that we have heard and consider future issues?

Members *indicated agreement.*

Housing Stock Transfer

The Convener: Without further ado, I ask Lynne Raeside to introduce the witnesses briefly.

Lynne Raeside (Royal Institution of Chartered Surveyors in Scotland): Thank you, convener, for inviting the Royal Institution of Chartered Surveyors to speak to the committee and to submit evidence on housing stock transfer.

I will begin by introducing our team. I am the head of the policy unit at the RICS in Scotland. I am a member of staff, rather than being a chartered surveyor. I am accompanied by Paul Letley, who works for a large firm of general practice surveyors in Scotland and who specialises in property valuation and property management. Alex Baird works for the housing and technical services department of a Scottish local authority. Alistair McCracken is a quantity surveyor who is a partner in a large surveying firm in Glasgow. Douglas Cameron is the urban renewal partnership manager with a large private developer. All four of my colleagues have been involved in housing stock transfers in recent years. Their wide-ranging backgrounds mean that they

have different expertise to contribute to the debate. Their expertise and that of other members of the RICS in Scotland contributed to our submission.

I will briefly outline the position of the RICS in Scotland on housing stock transfers. Without doubt, Scotland's housing is facing a serious problem. Significant investment in housing stock is required to bring the stock up to an acceptable standard. However, the way in which that problem is addressed requires a political decision. The RICS in Scotland is an apolitical organisation and does not want to comment on the politics of the vehicle that is under discussion—that is, stock transfer.

Our role, as set out in our royal charter, is to comment on and contribute constructively to the implementation of Government policy, so that it is workable, practicable and fair to all involved. In relation to housing stock transfer, the chartered surveying profession can contribute expertise on stock valuation, stock improvement, stock condition surveys, property management and wider property development, taking into account public and private partnerships.

The RICS in Scotland understands that the two aims of stock transfer are, first, to improve and invest in dilapidated and rundown stock and, secondly, to ensure community empowerment and involvement in the maintenance and management of stock. Bearing those two aims in mind, the institution has some concerns about the proposed vehicle for stock transfer, which are detailed in our written submission. We would be delighted to expand on them.

The Convener: Thank you. We would like to probe some of the institution's helpful submission and I will ask a few preliminary questions.

Am I right in thinking that the majority of your members come from the private sector?

Lynne Raeside: While some of our members work in the private sector, others work in the public sector—in local authorities, the Valuation Office Agency, central Government and Government agencies. We also have members who work for charities, housing associations and non-governmental organisations, as well as members who work for business and academic institutions. Therefore, we have a wide-ranging membership.

The Convener: But the majority of members come from the private sector?

Lynne Raeside: Yes, that is probably the case.

The Convener: How did you arrive at the views in your submission?

Lynne Raeside: The views were derived from the experience of members who work in public

and private partnerships. We received written submissions in response to the housing green paper last year, which we met to discuss. Those views were drawn together with those of the four members of the institution who are present this morning and the views and experience of members who work in the various sectors involved in housing stock transfer.

The Convener: What proportion of your members are, or have been, involved in Scottish stock transfers?

Lynne Raeside: I am sorry, but I am not able to give an exact figure.

The Convener: But you have some experience.

Lynne Raeside: Yes.

The Convener: Were the members involved in Scottish Homes transfers or in local authority transfers?

Lynne Raeside: Although we have members in housing associations who have been involved in Scottish Homes stock transfers, we also have members in local authorities who have been involved in the other side of the stock transfer process.

The Convener: That means you can draw comparisons between the two experiences.

Lynne Raeside: Yes.

The Convener: Has the fact that the Scottish Homes stock transfer process is different from the local authority transfer process affected your views about the bidding process?

Lynne Raeside: To be honest, most of the views that we have examined were based on the Scottish Homes bidding process.

The Convener: That is helpful.

Have your members been involved in stock condition surveys and valuations?

Lynne Raeside: Yes.

The Convener: They have been involved in both.

Lynne Raeside: Yes.

The Convener: Are any members involved in only one or the other?

Lynne Raeside: That would depend on the firms for which they work. As general practice members are experienced in valuations and other members are experienced in stock condition, it would be unlikely for one member to carry out both operations.

Members of the chartered surveying profession qualify in different specialist areas. While some specialise in valuation, others specialise in areas

such as building surveying, quantity surveying, planning and development. As a result, it is unlikely that the person who carried out the stock condition survey would examine the valuation as well.

The Convener: But you can evaluate the experience of both categories of surveyor.

Lynne Raeside: Yes.

The Convener: Has your organisation drawn any conclusions from the stock transfer experience in England?

Lynne Raeside: Not the organisation as a whole. The other members who are with me this morning might be able to expand on that point.

The Convener: We will probably probe that point later.

Your paper contains many references to housing associations. Could your comments also apply to other registered social landlords?

Lynne Raeside: Although we have generally examined housing association stock transfers, we have considered the public-private partnership issue and the experience of private developers that have worked with housing associations. One of our representatives who is here this morning works for a large private developer and has such experience with housing associations.

The Convener: Thank you. We will move on to discuss undesirable property.

Mr John McAllion (Dundee East) (Lab): Your paper stresses the importance of location as well as condition when the value of housing stock is assessed, and you refer to blackspots where no one wants to live. What do you mean by undesirable properties? Are they in poor physical condition, or are they in areas affected by crime and vandalism? Are we talking about one street, a number of streets or entire neighbourhoods?

Paul Letley (Royal Institution of Chartered Surveyors in Scotland): My background is in capital valuation. I dealt with rented properties for a number of years, and there are similarities between rented and private stock in that we must interpret the wishes of prospective purchasers or tenants. When they choose either to rent or to buy a property, they probably consider the location of the property before its condition. Although a number of other factors will follow from that, depending on people's individual circumstances, location is very important. That does not mean just transport, local facilities, the proximity of the centre or the type of houses. Although your point about vandalism and social issues is very important, there has been a trend in Scotland for people to want to live more in the city centre, and the poorer-quality stock on the outskirts of town, which

would be quite expensive to maintain, is not people's first choice. As a result, people are now living in blocks of flats with two or three properties boarded up; and there are social problems because some tenants who have to be housed there might bring the area down.

Mr McAllion: Would you argue that there is no underlying demand for properties in peripheral areas that have social problems?

Paul Letley: No. Peripheral areas in themselves are not the main factor; however, the fact that they are out of town is a negative point for most tenants. Although I would not say that those properties are totally undesirable, they are not people's first choice, and I find that tenants would prefer a house in poorer condition nearer the city centre, where there might be a bit more life and the transport costs are lower, instead of being isolated in a property in a multi-storey block, which seems to be people's last choice.

10:30

Mr McAllion: Your paper seems to suggest that demolition and complete rebuilding are the only option for areas that you describe as undesirable. Is that the case?

Paul Letley: We would need to investigate the condition of individual properties. In some cases, it would be prohibitive to throw good money after bad by renovating houses just to find that no one wants to live there. Before we assess whether the houses are worth renovating, we should find out where people want to live.

Mr McAllion: Some people would argue that the way to deal with such areas is to promote a range of area regeneration policies instead of just moving tenants out, demolishing properties and bringing in a new population. What is your view on that?

Alex Baird (Royal Institution of Chartered Surveyors in Scotland): Our paper tries to make the point that we want a balanced approach. We have some opportunities to bring in private housing for sale and rent as well as renovating some stock. However, before we do that, we need a condition survey that examines types of construction. Some of our members' discussions have centred on renovating properties. Public sector housing is a specialist subject; we should be able to survey the area to find out the condition of properties and whether there is a demand for them before we reach any quick conclusion about renovation. There must be some balance in the various types of housing tenure in communities. As a result, we have members in housing associations and developers who are involved in such initiatives.

Mr McAllion: It is just that your paper suggests that, in some circumstances, the only option is to demolish the whole area. That is happening in Ardler, in Dundee, where 4,000 public sector houses have been demolished and replaced with about 2,500 new houses. The problem is that the tenants who lived in that area are no longer there and are not part of the consultation process. Only about 150 of the original tenants are still involved; the rest have been disfranchised because they have been located elsewhere in the city. That cannot be the right way to give tenants a major say in what happens in their neighbourhoods.

Alex Baird: Nor is it the right way to retain the community ethos. I hope that our paper does not appear to suggest that the simple answer is to clear away the housing on any part of the map. We discussed the issue at length when we were preparing our submission to the committee and tried to emphasise the need for a balanced approach. We now have experience of working in partnership in such communities to provide low-cost housing for private and housing association purchase, for rent and for people with special needs.

Mr McAllion: I am not suggesting that we should completely rule out demolition. However, do you think that tenanted market value is an appropriate method of valuation for properties that require demolition?

Douglas Cameron (Royal Institution of Chartered Surveyors in Scotland): I will jump in on that question.

I know a reasonable bit about Ardler, which provides a good modern practical example. The bulk of the rented housing stock comes from refurbished existing stock, which was the initial proposal. There are problems with some of the building materials that were used in properties in the 1960s and 1970s, and there is often a mismatch between the aspirations of tenants and the house types that can be refurbished cost-effectively. The refurbishment tends to centre on flatted accommodation. I worked for a housing association that was involved in a stock transfer from a local authority to an established housing association, and know that matching the needs of a family to the housing mix is one of the nettles that must be grasped. If much of the stock is three or four-bed flats, they eventually become hard to let as they are too large for the people who would want to live in them—single people, single-parent families or couples.

The aim must be to match aspirations to the stock, its condition and the materials that have been used. Many housing associations that have spent a fair amount of money on stock are carrying out surveys on hard-to-let properties—properties in which substantial sums of public

money have been invested. My experience is of Springburn and Possilpark, where the motivation was to make things work financially, relative to the waiting list. If it was cost-effective to build flats, and three-bed accommodation was needed for families, three-bed flats were built. In retrospect, that was probably not the correct thing to do. The policy should be to match the make-up of families with the stock that is to be refurbished or newly built.

The bottom line is that we consider primarily how a project stacks up financially. Often, high valuations can deflect investment, for example, in the condition of the stock. Quality may be pared back on a disproportionate amount of the investment is in the value. I appreciate—but I am not fully aware of it—that there are big issues concerning capital debt and the way in which local authorities deal with that vis-à-vis the Scottish Executive.

Mr McAllion: How do you value existing council properties that have been earmarked for demolition in the future as part of the stock transfer process?

Douglas Cameron: In my experience, people tend to value the end of that process.

Mr McAllion: Not tenanted market value?

Douglas Cameron: Usually not. I can speak only from our perspective, but I assume that associations take the same view on transfer for demolition in a balanced programme of rehousing, decanting and so on—the end value of the site is valued. We are experiencing such a situation in Maryhill at the moment.

Mr McAllion: Therefore, the site is valued when properties are already being demolished.

Douglas Cameron: In my experience, district valuers will value the site, irrespective of what is on it.

Mr McAllion: In paragraph 5.4 of your submission, you draw a distinction between the money that is spent on buying stock and the value of the stock, in terms of the investment that will be put into it over the next 30 or 40 years. You seem to draw a distinction between price and value, especially in the long term. How would you change the present arrangements, to provide better value in such assessments?

Alex Baird: This is a bit of a generalist response, but, as my colleague indicated, there is a bottom-line requirement for a return. The amount of money that is available for investment in stock is weighed against the money that will be gained from that. We are aware of policy on rent increases, and we are able to assess the yield from property returns in relation to that. If price is the critical factor, and if that price is particularly

high, in the balanced equation, that reduces the amount of capital that can be raised in the marketplace for refurbishment or a modernisation scheme. Elsewhere in our document, we suggest that we might be involved at an earlier stage of a survey, when councils are making up their mind about the areas to consider. We have value to add to the process of deciding which properties should be modernised economically, as that has an influence on price.

Mr McAllion: Are you saying that the higher the price that is paid for the stock, the fewer resources will be available for investment in that stock?

Douglas Cameron: That is correct. This is about price and value versus whether a housing association—

Mr McAllion: Does not your view on that conflict with what the Scottish Executive is telling local authorities—that it is their duty to get the highest price for the stock?

Alex Baird: Our reading of the paperwork that we have received is that we are talking about best value. Our contention would be that best value need not always be related solely to financial best value, in terms of a bottom line.

Mr McAllion: Therefore, although the local authority gets the best possible price for the stock, that might not represent best value either for the local authority or for the tenants.

Alex Baird: Our contention is exactly that. We should have a dialogue earlier, about the balanced approach, the housing mix that is required, the waiting list requirements, whether we will build the right type of houses, and whether there is demand for low-cost housing to buy. All those factors must come into the equation in place of a bid process that asks simply, "What is the price?"

Mr McAllion: We will raise that issue with the minister.

Douglas Cameron: Thinking laterally, the other side of the fence is the income, and there are only two aspects of income in such projects. The first is the amount of private finance that can be raised on a property. A variety of issues, including quality, revenue income, investment in the long term, management and maintenance of properties, come into the equation. The second aspect is the ultimate public subsidy. However, those two amount to a limited investment. If a house costs 50 units—whatever we would call it—and 10 of those units are invested in the value of the property for the acquisition, only 40 units are available. If eight units are invested, 42 are available.

From our perspective, that is not complex. The complex task is establishing what that budget is. There are issues of tenure diversification—a broad

estate policy, which people are increasingly achieving. It has been noticed that many of the projects are getting larger, which gives more flexibility to come up with more innovative solutions, in terms of cross-subsidy. We generally welcome that in the house-building industry.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): I have a follow-on question. In the report that you provided for the committee, you say that transfer should be based on a strategic project management approach. Could you outline for us some of the key issues, and perhaps give an example of the ideal process that we should go through to reach that approach?

Alistair McCracken (Royal Institution of Chartered Surveyors in Scotland): We have outlined the problem of identifying the aspirations of the tenants. At the next stage of the process, it is important to have a proper survey of the area. My contention is that financial limitations on condition surveys do not always produce the right result. If more funds were made available for more detailed consideration, we might get a better picture of the finished result. We might be thinking about things on a short-term basis, whereas a longer-term view might help to build up the picture.

10:45

Douglas Cameron: Partnership has been called a marriage of convenience, but too often the partners meet at the altar. [*Laughter.*] That is an important analogy, and usually gets the same reaction. The private sector is usually involved at the very end of the process. In the case of Ardler, a brief was put together exhaustively by a community over two or three years, and we received it almost at the point of delivery. We believe that a method should be found of establishing partnerships in an open, auditable, publicly accountable way as early as possible, rather than at the tail-end of the exercise. At the moment, regardless of whether we are talking about a housing association stock transfer or a strategic development in which a housing association and the public sector are in partnership, that is done at the very end, usually on the basis of who is asking for the least grant.

Cathie Craigie: I know that you have to follow the procedure as laid down in guidelines, but could you give any examples of where red tape has been cut through? Are there any examples of good practice along the lines of what you have suggested today?

Douglas Cameron: We had one project that was completed extremely quickly. In that case, the site had been identified and our company was already active in the area. All those involved—the local authority, Scottish Homes, the enterprise

company, the housing association and ourselves—were there right from the start. We had slightly different agendas, but at least they were transparent right from the beginning. The result was that the project was turned round very quickly. It was the first new housing partnership that delivered houses as opposed to demolition. There was a joined-up approach from the public sector. Although the agendas were different, they were not so disparate as to make us question why we were getting involved in the partnership.

Cathie Craigie: Did that joined-up approach include tenants?

Douglas Cameron: The site was completely cleared. It was a hard-to-let area in Hamilton that was constantly appearing in the *Hamilton Advertiser* because the houses had been burned out. Community involvement was not, therefore, as much of an issue as it would be elsewhere, although political representatives were involved. We held a series of open days for residents, but this was not a stock transfer. However, it is conceivable that it could have been widened to include that. The situation was reactive, involving a small number of units—40 or 50 houses. However, we could apply some of the lessons that were learned there to larger projects.

Cathie Craigie: Throughout your submission, you refer to excessive red tape and we have heard you speak about it this morning. Could you give us a specific example of what you are talking about and why it would be beneficial to everyone if there were less of it?

Douglas Cameron: Partnerships involve a variety of interests. I appreciate that we are here to talk about stock transfers, but regenerating an area raises many different issues. For example, different parts of a piece of land may be in different accounts within the council—one may be in the parks account, one may be in the housing account and another may be in the planning account, administered by the estates department. One task of partnerships is to get a joined-up view of how all those hang together. It would help if the objectives or the mission were sorted out before an attempt was made to involve private partners, housing associations or registered social landlords. In my experience, that has been one of the most significant obstacles to getting a project from start to finish. It takes us about 18 months to do that, which entails a big investment from the private sector, ostensibly at risk, for an unreasonable period.

Fiona Hyslop (Lothians) (SNP): You have mentioned the problem of financial limitations on stock condition surveys. Could you say a bit more about the pressures that you understand local authorities to be under and the problems that limit the type of surveys that are done? What risks

does that involve, and to whom?

Alistair McCracken: I understand that local authorities are allocated a sum of money to carry out the stock condition survey. Experience has shown that local authorities select on the basis of price. As a result, the practices involved may not have sufficient time to carry out a detailed survey or may have to limit the number of houses surveyed. In our opinion, that does not give a proper picture of the current state and condition of the stock.

Fiona Hyslop: What are the potential problems?

Alistair McCracken: If the survey is flawed, the whole business plan could be flawed. If a council is trying to build up a picture of how much investment is required and what needs to be done, and the initial survey is flawed, it may get the wrong answer.

Fiona Hyslop: If you were acting for the buyers or the lenders and you came across what you thought was a weak survey, what advice would you give?

Alistair McCracken: That is a step further down the line, as the lenders will be brought in only after a business plan has been drawn up.

Paul Letley: If the sample is limited, it may not be representative of the whole stock. If a lender wanted to lend on, say, 10,000 houses and the sample was 500 houses, we would need to ask whether those 500 houses were representative of the whole. If the lender was unsure of that, the sample would need to be enlarged, or the lender would be lending on properties that had not been surveyed.

Fiona Hyslop: Do you think that corners are being cut?

Paul Letley: I am not aware of that, as I have not been involved in stock condition surveys, although I believe that a lot of houses have been surveyed. However, if we were acting for a lender in the private sector, we would have to say that the properties must be looked at first. In the case of a multi-storey block, it might be enough to look at the block and half a dozen flats. However, it is not enough to look at one estate among several, as that gives no indication of the condition or even the construction of the others.

Fiona Hyslop: Are there enough surveyors in Scotland to do the work for the new housing partnerships within the time scale that is being suggested?

Alex Baird: In the paper we say that our experience in the property market indicates that, if there were a major increase in building activity, there would be some difficulties in obtaining the

number of skilled tradesmen required. I am not aware of any major problem with quantity surveying—preparing the bills of quantities or the contracts. As Lynne Raeside indicated in her introduction, we have a broad constituency of surveyors in both the public and private sectors.

Fiona Hyslop: You mentioned that the same person would not do a stock condition survey as would do an evaluation. Would two people in the same team or the same company do the two jobs?

Alex Baird: Yes.

Mike Watson (Glasgow Cathcart) (Lab): Is there such a thing as the right value for the stock seller under the TMV system, or is it a matter for agreement between the buyer and the seller? I am concerned about how stock is valued, about income stream and so on.

Alex Baird: Earlier we discussed what is available overall for the project. We examine how many houses are involved and the condition of the properties. We are concerned that the approach of using a bit of paper that says "bid against this" is too sharp if there is no detailed survey. We feel that a consultative approach is needed. We should involve the potential housing association and the developer at an early stage to talk about value, for example. We must discuss such things in the context of what the housing authorities want from the transfer.

We are aware that some local authorities understandably want barrier-free housing. Different authorities also have different views about the density and size of housing—one and two bedroom mixes and so on. We regard value as an element in the equation rather than the issue that should prevail.

Mike Watson: You also suggest in your submission that full appraisals are not being carried out, but that they should be. You state that every property can be appraised. What do you mean by appraisals? What would a full appraisal cost? At what level would it become unreasonable to carry out full appraisals? What size of appraisal is appropriate?

Alistair McCracken: It is very difficult to answer those questions. Appraisal would take longer in some areas than in others because of different types of construction and so on. I could not place a value on appraisals now.

Alex Baird: We would contend that, rather than giving a figure that we considered reasonable, we should determine what the community wanted and the objective of such a scheme. We must not just look at a bit of the map and say that we want better housing there. There must be an end-product—balanced communities have been mentioned, for example. From such information

we can determine the extent of the condition survey that is required and what a realistic fee for that would be. I think that that answers Mr Watson's questions.

As Mr McCracken said, there are many different types of housing. The public sector has often been encouraged to build using methods other than traditional methods, so there is a range of housing types throughout Scotland. All those types require different solutions—there will be different costs and different approaches. Some homes can be converted, but in some areas the option that we would favour is demolition—we must be blunt about that.

Alex Neil (Central Scotland) (SNP): Charlie Gordon, the leader of Glasgow City Council, said in his evidence to the committee that the precondition for agreement to stock transfer was that the stock transfer in Glasgow should be a single transfer of around 90,000 houses. His reason for that was that that would result in a spread of the portfolio. If only the reasonably valuable houses and those that were in good condition and in good locations were transferred, the local authority would be left with houses in poor locations and in poor condition that were difficult to let. The public purse would, as a result, be substantially worse off. You seem to argue for a different strategy, which is to target the better locations and the houses that are in better condition and so on. Could you comment on the apparent contradiction between the two strategies?

Alex Baird: I will not comment on Glasgow City Council's approach.

Alex Neil: I would love it if you did.

11:00

Alex Baird: I hope that you are not inferring from our paper that we would target only certain areas. Our contention is two-pronged. Our professional view is that stock transfer on a more compact scale is more easily managed. We believe in local solutions to local problems. We want to involve the community, but what is that? Do we mean the whole city or the local community? We believe that, in working in partnership with housing associations, stock transfer would be more easily achieved if smaller-scale transfer were undertaken. There is not a cherry-picking agenda.

Alex Neil: From a business point of view and through prior consultation, is your experience that post-transfer management and raising the loan capital is easier using compact transfer areas than it would be in transfer of the portfolio of the 90,000 houses in Glasgow's stock?

Alex Baird: Yes. Our contention is that fundraising and development would be much more difficult with a transfer of stock as large as the figures that you mention than it would be with smaller packages. I appreciate that that is not a particularly clever statement, but our experience shows that working with more manageable sizes of stock gives us better opportunities to raise equity and to address local problems.

Paul Letley: I would like to refer to a point that Cathie Craigie made. I find that relatively small housing associations provide examples of good management. They are very good at communication. They deal with smaller numbers of houses and as social landlords they are popular with their tenants. If we want to examine what is best for the tenants, a smaller housing association would be the preferred choice.

Alex Neil: Would you be prepared to provide the committee with a SWOT—strengths, weaknesses, opportunities and threats—analysis based on your experience of mass transfer as opposed to your strategy? Additional information and evidence would be helpful to the committee. I know that you do not want to get into specifics because you do not want to get into the politics of the situation, whereas I do. From a business point of view, from a housing management point of view and from a democratic accountability point of view, you seem to be in favour of smaller-scale transfers.

Alex Baird: We are happy to acknowledge that, but we would like to emphasise that we are not implying that a large-scale transfer would not work. The Royal Institution of Chartered Surveyors would prefer to use the option of smaller transfers.

Alex Neil: Your paper states that the two objectives of the stock transfer policy are, first, to find funding to upgrade housing and, secondly, to increase the level of community involvement. As I understand it, you argue, based on your experience, that those objectives would be easier to achieve with the kind of strategy that you suggest than with the kind of strategy that is under consideration in Glasgow.

Alex Baird: I would not phrase it in that way. If there is an agenda for stock transfer in Glasgow on the scale that you describe, please be assured that our members' firms will be interested.

Alex Neil: I have no doubt about that.

Alex Baird: As Lynne Raeside mentioned, we gave submissions for the green paper on housing. We are obliged to give you a professional view.

Alex Neil: Additional information would be helpful.

I wish to ask a couple of questions on the points on consultation in your paper and in your verbal presentation, which are well made. Presumably,

those comments are based on experience of the stock transfer of Scottish Homes assets rather than of local authority housing.

No organisations exist to which the houses in Glasgow would be transferred—if one assumes that they are transferred in one go. There is an underlying assumption that such an organisation would be established by council staff, although nothing is written in tablets of stone.

If stock transfer goes ahead in Glasgow on the basis of the currently favoured strategy of a single transfer of about 90,000 houses, would it be advisable to establish, before the transfer, the organisation to which the housing is to be transferred, so that those who will manage the stock have early involvement in the process?

Douglas Cameron: The earlier that partners—registered social landlords, housing associations, or private developers—are involved in the process, the better. If partners are not involved early in the process, a situation can arise in which people who do not have to deliver build up aspirations among tenants that cannot be met by those who do have to deliver.

The reason for transfer on the scale that is proposed is that stock can be pooled. One wonders about the soundness of a business plan that includes stock with nothing to contribute, other than perhaps rent roll, to the viability of the project. The viability of the project is in the interest of tenants because of the security that it gives them in tenancies, rents, management and maintenance, and because the project is part of the broader policy of regeneration. If the only reason for a large transfer is to pool stock, it might be worth investigating further whether the stock is attractive enough to tenants, funders and the broader community to be retained.

Rather than saying that the transfer has to be 1,000, 10,000 or 90,000 houses, one should question the relative merits of the different parts of the business plan. Ultimately, as there is a fixed amount of public or private support, one must ask how that support can best be used. It is the holistic approach rather than the amount that is bid for the stock that is important.

Alex Neil: Charlie Gordon was open and honest about this. He made it clear that he wanted the stock transferred in one go in Glasgow so that he could get cross-subsidisation—as it would be called in industry. You are saying that that would perhaps weaken the business case.

Douglas Cameron: I am suggesting only that people should consider whether that is the best way of using the cross-subsidy.

Cathie Craigie: Part of the strategic plan might be to demolish less desirable houses, but I do not

agree that the poorer quality stock has no value. Surely the value of the land, less the cost of demolition, could be included in the business plan.

Douglas Cameron: In putting a value on a property, a bank considers what, if all else failed, it could sell it for. One wonders whether transferring property that has no intrinsic value—other than that the rent contributes to the revenue of the project and helps to pay the mortgage—is the best use of cross-subsidy. Mr McAllion knows that at Ardler the main element of clearance is multi-storeys. Let us not beat about the bush: banks usually have problems with funding multi-storeys. That is why one needs to pool stock and to cross-subsidise. I do not know whether that is the best use of cross-subsidy.

Karen Whitefield (Airdrie and Shotts) (Lab): Your paper refers to the right to buy. How would you ensure that the redemption value was greater than the remaining debt? Why do you think that that is so significant?

Alex Baird: We noticed in the consultation paper the question of extending the right to buy. All we can do in a business environment is discount that type of option. If there is no right to buy, we can project an income stream, perhaps over a 30-year funding period. However, if legislation affords the right to buy, our income-stream projections are affected, which will be reflected in the level of bids and in the amount of cash that is available for upgrading and modernisation. We certainly do not say that there should be no right to buy, but we want to explain to the committee that any financial bids that our members made would have to take account of the right to buy.

Robert Brown (Glasgow) (LD): How should we approach the question of the construction industry, which has been covered in evidence from other people? If there is a 10-year programme in Glasgow with £1 billion investment, many building workers will be required. Should the work be phased? Are there ways in which additional qualified people can be called on? What difficulties will there be with construction?

Alistair McCracken: The construction industry suffers from peaks and troughs. This year, there has been a marked increase in construction costs, which reflects the level of activity at the moment. If there is a sudden increase in activity in the housing market, there may not be enough skilled tradesmen to do the necessary work. I know that some contractors are finding it difficult to secure adequate labour. If there is to be increased activity, provision must be made to ensure that an adequate labour force can be trained and skilled to meet demand.

11:15

Robert Brown: How long does it take to make a significant difference? A year, two years or six months? You mentioned the problem of peaks and troughs. Throughout the 1970s and 1980s you had major tenement renovations to cope with. Does that help you to estimate the time needed to respond to the demand?

Alistair McCracken: You certainly cannot expect the industry to respond immediately, and I know that you are aware of the time that it takes to train tradesmen. I think that it will take a reasonable amount of time. It is difficult to pin it down more exactly than that, but it will not happen in 12 months. It will take at least two or three years.

Robert Brown: Let me put the question another way. If you allow contracts to build up, what implication does that have for the quality, the price and the ability to deliver?

Alistair McCracken: It would certainly affect the price. Tender levels would increase dramatically. Again, you are right to say that the quality of the labour force may come into question. We would have to be diligent to ensure that quality of workmanship continued to be achieved. Allowing contracts to build up would create problems in all aspects of the work.

Robert Brown: I have two further questions. First, the paper mentions special constructions, such as Blackburn and Orlit. Is there a general view that a lot of those peculiar forms of construction would be too expensive and would distort the business plan, or is there individual assessment?

Alistair McCracken: There are some types of property that it is not economic to refurbish extensively. There are many unusual forms of construction, and some of them may need a fuller and more disruptive survey to find out the extent of the property's refurbishment requirements. I have seen the situation from both sides of the fence and I know that Blackburn buildings tend not to be a problem. However, the system-built stuff of the 1970s used methods and materials that would not be acceptable now.

A key factor in deciding on the viability of rehabilitation is how far we have to go to make a building into a tenable, fundable product. With the tenement refurbishment project in Glasgow, we had to go so far that the cost of refurbishment was two or three times the cost of building a new house. It was as serious as that with the system-built tenements of the 1960s and 1970s.

Robert Brown: My final question is about the sinking fund mentioned in section 6.2. You have put a lot of emphasis on the difficulties caused by

right to buy and fractured ownership. What is the likely level of sinking funds? Presumably, people will have to pay management costs, and I wonder whether you can give us any average figures or guidance on that. Over and above those costs, what would be the appropriate levels of sinking fund contributions?

Paul Letley: One would usually consider the life-cycle and maintenance programme of a house—perhaps renewing the bathroom in five years, the roof in 10 years and so on. One would consider the interest rates and, by a valuation method, consider what the value of one pound might be in so many years' time and how the market might discount that.

Robert Brown: I appreciate that there must be a lot of variation among different properties, but is there a typical level? Assuming that one has a recently renovated property that is up to scratch to start with, how much would one then have to put into it each year?

Paul Letley: There is no typical level. If the property is a flat-roofed ornate house, one may have to renew the roof every 10 years. If the property is a traditional brick-and-tile house, one may only renew the roof every 50 years. One must consider the facts of each individual case.

To return to the point that you made earlier, another consideration in deciding whether to renovate is the type of property that the tenant wants to live in. For example, there may be non-traditionally constructed houses in an attractive area, such as the Robb Caledon houses that John McAllion will be aware of in Craigie, between Broughty Ferry and Dundee. While those steel-clad houses, which were built in the 1920s, were expensive to renovate, they are well laid out and popular to live in, so it was worth spending that money. However, one would have demolished those houses had they been located in Ardler, as they would not have been worth spending on. One must consider the tenant's wishes before making a decision.

Robert Brown: I am trying to get a feel for the level of cost. If people are buying on the edge of affordability, what costs might they have to take into account? Are there examples of sinking funds that have been established in such situations that might guide us?

Douglas Cameron: In detailed appraisals carried out by Scottish Homes of historic stock transfers through housing associations, a formula was developed for either major repairs funds or sinking funds. One tends to find that the sinking fund is built up. The cost of funding a project—such as the amount one might pay in a mortgage—remains static for the life of the property. Sometimes rental growth involving

transferred property has been slightly above inflation, but, through inflation, that residual fund is built up. Paul Letley was right when he said that one appraises that fund relative to life-cycle costing, which indicates whether one can re-roof the property in five years, fit new windows in 10 years and install new bathrooms in 15 years. Therefore, a sort of double scrutiny takes place.

While my recent experience of Scottish Homes is a bit shaky, in the past it certainly had a formula for major repairs, although it also built up a residual fund. It is important to note that that fund was netted from the income—that is, the rental—so the funding is based on the net income. Therefore, the funding does not impact on tenants and is already taken into account in the transfer calculations.

Mike Watson: You made a forceful point on the skills shortage. Last week, we took evidence from the trade unions on that particular point. The trade unions said that the maintenance on the houses that may be involved in stock transfer is carried out by direct labour organisations. Therefore, if a stock transfer takes place, would you agree that the expertise exists within those organisations to continue maintenance work?

Also, those organisations tend to be the sort of organisations that provide apprenticeships. Mr Cameron, is it not incumbent on companies such as the private building company that you work for to begin to gear up for apprenticeships, as they have a three, four or five-year lead-in? Is that happening?

Douglas Cameron: I will explain what is happening now and what happened in the past. In the house building industry in particular, the delivery of the product is increasingly in the hands of subcontractors. Companies have not carried their own tradesmen for perhaps five or 10 years, which is a significant problem. At Ardler, we are in partnership with a local Dundee firm, which is more like a traditional contractor and which has a substantial training programme, the first aspects of which are coming to fruition.

The key aspect is partnership, which means that everybody knows what he or she is doing and for how long they are doing it. That allows people to plan accordingly. When people win a 50-unit tender, a lot of that has been undermined, because they cannot form a steady business plan.

Mike Watson: I accept that and I am not asking you to comment on that. This committee is concerned with social inclusion and if, as the trade unions pointed out, such work is subcontracted, it might go south of the border, which will do nothing to aid social inclusion in Scotland. That is why it is important that we give that training in Scotland.

Alex Baird: I just want to explain that we

acknowledge the role of the direct labour organisation. The DLO is substantially involved in maintenance, but we are talking about significant upgrades. Our members know that we cannot just turn on the tap. However, if there is an issue, the industry will gear up to address it.

The Convener: Thank you. I am sure that we will pursue that point. I have two points of clarification. First, I know that some of your members are involved in surveys and some are involved in valuations, yet they could work for the same company in the same team. Does that present a conflict of interest?

Alex Baird: No.

The Convener: What is the scrutiny for surveyors in Scotland? To whom are you accountable?

Alex Baird: We have our own professional standards and disciplinary process. Our membership reflects the fact that some of the development companies will employ people who are skilled in valuation, as well as people who are involved in preparing bills of quantities to execute contracts.

Any of our organisations that are involved in putting a bid together or working in partnership will not deal in one specialism. Lynne was trying to make the point that our professional expertise spans management, construction and valuation.

The Convener: There are no cosy deals between valuers and surveyors?

Alex Baird: Are you asking whether we sit on both sides of the fence?

The Convener: Yes, comfortably.

Alex Baird: The answer is no.

Lynne Raeside: The Royal Institution of Chartered Surveyors has a very strict code of professional conduct, which is administered internally. However, there is also a compulsory complaints handling scheme and arbitration service, which is administered by the Chartered Institute of Arbitrators, not by the RICS. There are very strict rules about conflicts of interest. When problems reach arbitration, that process is not administered by the RICS.

The Convener: Do you get many complaints?

Lynne Raeside: There are quite a few spurious complaints from members of the public that are not taken forward. Those that are followed up are taken very seriously.

The Convener: Finally, you are arguing for full appraisals. Who picks up the tab if a surveyor does not give the proper information? Who is held to account?

Alex Baird: Our earlier discussions centred on the fact that currently, if the survey or appraisal is inadequate, the authority must eventually pick up the tab in the form of increased costs.

The Convener: I presume that surveyors sometimes get it wrong.

Alex Baird: Yes.

Lynne Raeside: Action can be taken against surveyors. They have professional indemnity insurance. Claims of negligence can be brought against them.

The Convener: I understand your argument for a full appraisal, but in the real world that is not always feasible. Would a sample of 10 per cent of the stock provide a reasonable basis for valuation?

Paul Letley: To get a representative sample, one would need to consider the number of different house types. There would need to be one of each type of house and construction—perhaps more—to make a reasonable judgment.

Alex Baird: There are location issues and flat-roof issues as well. It is not just a map.

Bill Aitken (Glasgow) (Con): Your organisation is probably uniquely placed in that you have the expertise and experience to comment instructively on stock valuations and related issues. Have you had any formal or informal approaches from the Scottish Executive asking whether you are prepared to lay down rough guidelines to be followed for stock valuations and condition surveys?

Lynne Raeside: No, we have had no formal approach.

Bill Aitken: What reaction would the institution have to an approach from the Executive?

Lynne Raeside: The institution would be keen to be as helpful as possible to the Executive. If we could assist in drawing up guidelines, we would welcome the opportunity to do so.

Bill Aitken: Did the institution have any formal input into arrangements made by Scottish local authorities following the right to buy brought in by the Tenants' Rights, Etc (Scotland) Act 1980 in respect of valuations?

11:30

Lynne Raeside: To be honest, I have no idea. That was before my time. Alex has been involved with the institution for more years than I have.

Alex Baird: Very tactfully put. We have valued the opportunity over the years to comment and we have done that not just in relation to this subject, but in relation to others. Property is such an

important issue that I am sure, although I am not quite old enough to know, that our institution would have had the opportunity to comment.

Mr McAllion: Bill can remember then.

Bill Aitken: Unfortunately, I can remember. Indeed, I was heavily involved in the project. That gives away my age.

I know that I am putting you firmly behind the eight ball here, but looking at the way in which this issue is being processed, particularly the Glasgow stock transfer, which is the one that must concern us most, if you had the power to change the arrangements in, for example, three ways, what changes would you implement?

Alex Baird: The contention of our institution is that housing is a national problem. I am not at all denigrating the situation in Glasgow, but the feedback that we have had from our members is that there are problems with housing across the country. We have to take a professional approach that looks at the condition of properties, and a realistic business assessment of what is achievable.

Mr Brown asked the question about sinking funds. We are discussing what sinking funds are all about. We are saying that if we are going to do this, let us do it right, do it sustainably and do it into the future, then we can get good, balanced housing communities on a partnership basis.

Bill Aitken: Is there nothing else that you would like to be changed?

The Convener: We are short of time, so you will have to think quickly. If there is nothing else just now, you could always make a submission to the committee at a later date.

Thank you for your submission. It was extremely helpful, and it will assist us with our inquiry. We may follow up requests from members for further information from you. Feel free to submit any other thoughts that you wish.

Alex Baird: We would like to thank you dearly for the opportunity to contribute to your committee's inquiry.

The Convener: As ever, we are running over time. We are good at that on this committee. We need to re-examine our planning, because we do not give ourselves enough time.

I invite the Valuation Office Agency of the Inland Revenue to give its submission. I cannot believe that I have the Inland Revenue in front of me. Thank you for coming. Welcome to the committee. I apologise for keeping you waiting for so long. You can gather that our committee members are keen to ask lots of questions. Thank you for your letter. Please make a brief introduction.

Allan Ainslie (Valuation Office Agency): Many thanks for inviting us today. I will introduce my colleagues, who are based in my office in Edinburgh. On my left is Rosemary Carthy, who is the VOA adviser on housing matters, and in particular on transfers of public sector housing to housing associations or registered social landlords. On my right is my assistant, Philip Gay, who is responsible for operational matters in Scotland.

I will make brief comments. You will see from our submission that our role is to provide valuations to the public sector. We are prohibited from making valuations for the private sector. We have considerable involvement in housing stock transfers in Scotland so far. We realise that valuations and public accountability will play an important part in the stock transfer process, and I hope that we can assist the committee in its deliberations. I will endeavour to answer members' questions, but will defer to colleagues at certain points.

The Convener: Thank you. I would like to begin with a fairly obvious question. What role has the Valuation Office Agency had in the past in valuing rented stock for transfer?

Allan Ainslie: You will have seen from our brief submission that we are the independent valuer in transfers for local authorities, new towns and Scottish Homes. That has been our past involvement.

The Convener: Is it correct that the Valuation Office Agency has replaced the old district valuer service?

Allan Ainslie: That is right.

The Convener: Could you explain the differences a little?

Allan Ainslie: The differences are really in terminology. It was always called the Valuation Office, but people who used our services used the district valuer service. There was a district valuer in each location. When we became an agency of the Inland Revenue, the title was changed to VOA—Valuation Office Agency. However, the district valuers are still there. Both terms are now used.

The Convener: Are there any differences in funding, accountability and so on?

Allan Ainslie: No, other than our being a slightly different agency from the original. There is no real change.

The Convener: Is there any difference between the Valuation Office Agency in Scotland and in England?

Allan Ainslie: The major difference is that, in England, we deal with the rating function and the

council tax. In Scotland, both those functions are carried out by the assessor—by local government. A vast amount of work is carried out in England and Wales on rating and the council tax, which is the prime function of the Valuation Office Agency there.

Alex Neil: We want to get an understanding of the Valuation Office Agency before getting into more detail on the housing transfer. How are you funded as an agency?

Allan Ainslie: It must come from a block vote, I imagine. I am not involved at that level. The head office in London deals with the funding principles. We presumably have a block vote from the Treasury.

Alex Neil: When you are acting, for example, on behalf of the Inland Revenue, other central Government agencies, Scottish Homes or local authorities, do you compete for a commercial contract?

Allan Ainslie: We charge for our services. We are obliged to recover our full costs in all our dealings, whether with the Inland Revenue, which we bill, Scottish Homes, a local authority or another Government department.

Alex Neil: Are central Government departments, local authorities and quangos—if I can call them that—such as Scottish Homes obliged to use you for the services that you provide, or do you compete with private sector providers on some occasions? If so, when?

Allan Ainslie: We compete with private sector providers on quite a few occasions. Some work is tied but, increasingly, quite a lot of work is opened up to competition.

Alex Neil: Are there any parts of those local authorities or central Government departments for which you automatically provide the service?

Allan Ainslie: I do not think so. We have to compete for local authority work.

Alex Neil: So you have to compete for local authority work and for Scottish Homes work?

Allan Ainslie: Yes.

Alex Neil: How successful are you in competing?

Allan Ainslie: Reasonably successful. We get our share of the work.

Alex Neil: Do you price your work at cost recovery or at cost plus?

Allan Ainslie: At full cost recovery.

Alex Neil: Does that not put the competitors at a disadvantage if they are to make a profit?

Allan Ainslie: No. The others are very

successful in competing for our former work.

Alex Neil: What has been your role in things like options appraisals and the housing stock transfers that have taken place through either Scottish Homes or local authorities? What role could you play in the new housing partnerships and the potentially massive expansion of stock transfer? Have you ever acted on behalf of the buyer of the stock, or do you always act on behalf of the seller?

Allan Ainslie: On most occasions, we have acted on behalf of the landlord and, as independent valuers, have provided a figure to be used, effectively, as a benchmark—an independent valuation.

Alex Neil: If I were a lender who needed an independent valuation and you had not provided the valuation for the landlord, who was, for example, a local authority—perhaps someone else had beaten you for the local authority valuation contract—is that the kind of the work that you would bid for?

Allan Ainslie: No. The lender would be a privately funded body and we cannot act for the private sector.

Alex Neil: So you act only for public sector organisations?

Allan Ainslie: Yes. Our framework document prohibits us from doing work for the private sector.

Alex Neil: Are housing associations counted as public or private for your purposes?

Allan Ainslie: Public.

Mr McAllion: You probably heard a number of us this morning refer to TMV—tenanted market value. That does not mean that we know what we are talking about. We are told about such things. *[Laughter.]*

The Convener: Well said.

Mr McAllion: Am I right in saying that TMV is the sale price placed on stock to be transferred, following a survey of the income and expenditure streams over the next 30 years, discounted to present values?

Allan Ainslie: That is effectively correct.

Mr McAllion: Does that make TMV a form of discounted cash flow?

Allan Ainslie: Yes. The discounted part comes from the fact that the inputs and deductions from rental income must be brought back to the present day. They are discounted. It is a discounted cash flow—an income stream approach.

Mr McAllion: Apart from being used to value rented housing, what is discounted cash flow used for?

Allan Ainslie: It is used in the private sector by surveyors in investment. It can be used for industrial or office stock that is held as an investment. It is not a new idea.

Mr McAllion: Is there any reason why it was introduced for valuing rented housing? In your view, is it appropriate for valuing rented housing?

Allan Ainslie: We think that it is an appropriate method. It is also a method of financial appraisal used by the lenders. We considered other methods and started off using a different one, but we moved to discounted cash flow because we felt that it was appropriate in the particular circumstances, with the number of inputs and outputs. It allows us to carry out sensitivity analyses. It is all on a computer spreadsheet. We feel now that it is really the only way to consider the stock transfers, bearing in mind that the landlord has to let the property at affordable rents.

Mr McAllion: You say that it is the only way for the stock transfers, but you referred to other methods that you used to use. What were they?

Allan Ainslie: A considerable time ago, we examined evidence of sales of tenanted stock to private landlords and made adjustments to take account of the social rented housing policy. However, the evidence on that front has dried up, so that is simply not an option. It was an unsophisticated method of valuation. The discounted cash flow method allows us to have a more sophisticated look at the inputs and outputs, which is crucial.

Mr McAllion: You say that the previous method was unsophisticated. Would it have affected the final price of the asset that was being sold? Would the price be higher if that method were used?

11:45

Allan Ainslie: Not necessarily—it may have given the same answer. The key point there was that that method was based on private market evidence of sales. That evidence is no longer available—the market in that kind of work has disappeared.

Mr McAllion: So it has not been dropped simply because it would cost more money to fund?

Allan Ainslie: No.

Mr McAllion: In the TMV valuation, is there what is referred to as fat, or flexibility, in arriving at a price?

Allan Ainslie: The method relies on a number of inputs, on which the valuer has to make a judgment. The valuer will have the stock condition survey, which will give a costing, over a 30-year period, of the capital works that have to be carried out. It will also slot the works into a certain year.

There is the rental evidence, historical evidence of the number of cyclical repairs and of voids and evidence of the level of management. Using that evidence, the inputs are slotted in and a net present value is arrived at.

Mr McAllion: Considering the calculations that the valuer uses to arrive at a price, is there room for the valuer to say, "In the circumstances, I'll put it a bit higher" or, "I'll put it a bit lower"? Is there a rigid equation that dictates that it must be a certain price?

Allan Ainslie: No. A judgment has to be made.

Mr McAllion: If the valuer judges that the price should be lower, does that not mean that, in a stock transfer, the Executive, for example, would have to pick up more of the debt associated with that stock?

Allan Ainslie: I could not comment on that—I have no knowledge of the funding aspects.

Mr McAllion: But would it be possible for the valuer's judgment to affect the amount of debt the Scottish Executive will have to pick up?

Allan Ainslie: If you are telling me that a lower value means that debt increases. The valuer makes the best judgment he can, based on the inputs. If that produces a lower value, that is the value.

Mr McAllion: In your judgment, who is at risk as a result of the valuer's judgment on the tenanted market value? Is it the buyer or the seller? How would you minimise those risks? Depending on the value placed on the stock to be transferred, somebody will lose out.

Allan Ainslie: Yes. The only way, from a valuation standpoint, to minimise that risk is to ensure that a lot of good information is available to the valuer to help him make his judgment.

Mr McAllion: Is that judgment completely independent?

Allan Ainslie: Yes.

Mr McAllion: So you are not trying to please the contractor by bringing in a price that would suit them?

Allan Ainslie: The independent valuer will be independent of the bidders, or proposed landlords.

Mike Watson: I want to ask about the price differences of stock. Do you accept that the valuations of stock that are sold under the right to buy tend to be quite a lot higher than the values being attached to general council stock through TMV? If so, why do you think that is the case? Is it right that there should be such a difference?

Allan Ainslie: It is on a different basis. In the right to buy process, a vacant possession value is

put on the property—probably by the district valuer, because we do most of them. An arbitrary percentage, as stated in the Housing (Scotland) Act 1987, is discounted. It does not have anything to do with valuation.

In the other method, we are taking account of the rental income. We are not basing it on vacant possession. We cannot sell the property; it has to be let as a going concern business. The two are not the same.

Mike Watson: It is not possible to make a direct comparison?

Allan Ainslie: No.

Mike Watson: I would like to ask about the difference between the estimated value of Scotland's council stock as a whole and the debt sitting on the books. The committee was given a briefing at which we were told that the estimated value of council housing in Scotland is about £1.5 billion to £2 billion, whereas there is about £4 billion of debt on the books. Can you explain how there can be such a difference between the two figures?

Allan Ainslie: I have no knowledge of that. It is not within my field and I cannot comment.

Mike Watson: I accept that, but are you required to have an overall valuation of council housing stock across the country?

Allan Ainslie: No. Our role in the right-to-buy process is to provide a valuation to local authorities. They send us the application forms they receive from tenants and we provide a value.

Mike Watson: As and when you are asked, you do not keep a rolling valuation of property?

Allan Ainslie: I am sure that somebody keeps those statistics, but it is not our function. Our role is to provide a valuation service.

The Convener: So you have no strategic view of the value of housing in Scotland. Do you calculate value on a house-by-house basis?

Allan Ainslie: Yes. It is for the Scottish Executive or other housing bodies to take a strategic view. We have no role in housing per se; we simply provide a valuation service.

The Convener: On request, as it were—house by house?

Allan Ainslie: That is correct. We do valuations for all sorts of things besides housing.

Mike Watson: There may be obvious reasons for this, but why is the housing in some areas worth not much more than the value of one year's rent, when in other areas where a similar system for calculating value is used we can end up with a capital value five times the rental value?

Allan Ainslie: Is that using the discounted cash flow method?

Mike Watson: Yes.

Allan Ainslie: Properties can have a very low value for many reasons. The two most important ones relate to the capital works programme and the level of rents. If, for whatever reason, stock is run down, the capital works programme spread over 30 years will be front loaded—in other words, there will be heavy expenditure in the early years. If that is combined with a relatively low rent, the result will be a low value. Another area may have a lower level of capital works and a higher rent, which will produce a much higher value.

Mike Watson: Is the 30-year capital works programme the only factor?

Allan Ainslie: The capital works programme and the level of rents are the two main factors.

Mike Watson: So income stream is important?

Allan Ainslie: Yes.

Robert Brown: This is a slightly artificial question, but is there such a thing as the right price, or is it just a matter of agreement between the buyer and seller in stock transfer situations?

Allan Ainslie: No. The independence of the valuer must be recognised. The valuer produces a valuation that is based on the evidence that he is given and the stock that he is asked to value.

Robert Brown: Do you have any role in scrutinising the adequacy of the information that you are given—the stock condition survey or the like? Could you point out that not enough houses had been surveyed or that you had not been given the whole picture?

Allan Ainslie: In the role of independent valuer, we would have to examine the stock condition survey that had been provided. If we did not like some aspect of it, we would have to query that.

Robert Brown: In the Glasgow stock transfer there are two main parties—the city council and the body that will take over the houses. In that situation, would you act on the instructions of the council?

Allan Ainslie: I imagine that the council would appoint an independent valuer to provide a best price.

Robert Brown: So your client would be the council?

Allan Ainslie: Yes, but the independent valuer is independent of both the buyer and the seller.

Robert Brown: In right-to-buy sales, you are appointed by the seller. Is there not an appeal mechanism against the price?

Allan Ainslie: No.

Robert Brown: There is no appeal mechanism?

Allan Ainslie: No—in fact, it is a determination.

Robert Brown: Is there a need for scrutiny by anyone else? You would be appointed by one party which, given the variable figures, might lead to a conflict of interests, or whatever.

Allan Ainslie: I cannot speak for other independent valuers, but we are used to our role and have no difficulty in standing on our results.

Robert Brown: But from what I gather, you would not necessarily be the only valuers in the field; there would be competition for that work.

Allan Ainslie: I imagine that there will be competition.

Robert Brown: Could your comment about independent valuers be said with the same confidence about outside valuers?

Allan Ainslie: I could not comment on that.

Robert Brown: A number of landlords might compete to take over an amount of stock. Does the possibility of that competition influence the valuation?

Allan Ainslie: No.

Robert Brown: I will take a slightly different tack. When one is buying a house, competing buyers can push up the price. Does that feature not exist in stock transfer?

Allan Ainslie: I imagine that the bids made for stock will vary and that the independent valuer's valuation will be used as the benchmark, but some bids may be higher than that.

Robert Brown: Are we not missing something if there is no competitive element? Is there some way of replicating that in the way the valuation is carried out? I suppose I am referring to the desirability of the stock.

Allan Ainslie: I am not quite with you—

Robert Brown: I am thinking of the parallel situation of buying a house. I think we agreed that, if there is greater competition, the value is likely to be higher. Particular stock transfer proposals will be more attractive, or less attractive, depending on the interest in lending and so on. Is there any way in which that could be reflected in the valuation?

Allan Ainslie: The bidders will undertake the same exercise as the independent valuer—they will carry out their own assessment of value and make their own judgments. It may be that, for some special reason, they will have a different view and therefore offer a different bid price. That is where the competition element comes in.

Fiona Hyslop: I wish to pursue the issue of scrutiny. Much of what you have spoken about involves small-scale valuations, but we are examining potentially very large stock transfers—a volume of business in the region of £1 billion-plus.

Who provides the scrutiny to ensure that the public purse is getting reasonable value? Who scrutinises the valuations? You have just said that you have not taken on a strategic role. Is anyone carrying out that scrutiny? If they are not, should someone be doing it?

Allan Ainslie: Are you asking who should scrutinise the independent valuer?

Fiona Hyslop: Yes, or who scrutinises the valuations that are made? Even in Glasgow, a variety of players are involved—the council, whoever it may pass the stock to and the Executive. Each has an interest in whether the valuation is high or low.

Allan Ainslie: I suppose that the benchmark valuation provided by the independent valuer acts as a check on the bids.

Fiona Hyslop: Should you have a role in scrutinising proposals, or is your position compromised because you may have been involved in bids at an earlier stage?

Allan Ainslie: As I understand the process, the council will appoint an independent valuer. The independent valuer's role is to provide the valuation of the stock, subject to various terms and conditions, which will act as the benchmark. Then bids will be submitted and, if the bid is higher than the benchmark valuation, the valuation acts as a check. If a bid were lower, one would wonder why.

Fiona Hyslop: Do you think that there is a need to improve the scrutiny of valuations, bearing in mind the new housing partnership proposals and the mass stock transfers?

Allan Ainslie: I do not think so.

Fiona Hyslop: Are you happy with the status quo?

Allan Ainslie: At the moment, yes.

12:00

The Convener: If the independent valuer for the buyer and the independent valuer for the seller disagree, how is that resolved?

Can you tell us something about stock transfers that you have been involved in?

Rosemary Carthy (Valuation Office Agency): I can give you details of the stock transfer that I was involved with in Berwickshire in 1994.

We were asked to validate the valuation that had been provided by the valuer consultant. We were

validating the price on the proposed disposal. We went through every item that made up the value, which meant checking all the information that went into the valuation provided by the valuer, including stock numbers, rents and voids, checking the stock condition survey to ensure that it accurately reflected the situation and producing our own independent valuation, which, in that case, was not the same. Our independent valuation was provided to the local authority and, following discussions, the sale went through.

The Convener: What factors affected the valuation?

Rosemary Carthy: Because we took an income-stream approach, we had to consider everything that makes up the income stream, such as the level of rents, the level of voids, management costs, maintenance costs, possible right-to-buy sales and the programme of repairs that will be carried out in the foreseeable future. Those things are brought back to a present value under the tenanted market value process.

The Convener: Did you then recommend a price?

Rosemary Carthy: Our valuation formed the independent valuation for the transfer of that stock.

The Convener: Did the council take your advice?

Rosemary Carthy: The council took our report, which did not endorse everything that was in the valuation provided by the person that was going to buy the stock. Following much discussion, our valuation and proposals formed the basis of the transfer.

Cathie Craigie: How would disagreements between you and the professionals who are doing the valuation for the buyers be resolved?

Allan Ainslie: We would give our valuation to the council and it would be for the council to investigate the sources of the differences. We might be called in to try to isolate the differences.

Cathie Craigie: This might have been asked before, but do you ever get the valuation wrong?

Allan Ainslie: Valuation is not an exact science.

Cathie Craigie: So there is discussion, and there can be movement one way or the other between the independent valuer—yourselves—and the valuers from the private sector?

Rosemary Carthy: No. Following any discussion, if the independent valuer was of the opinion that their valuation was correct, that independent value would stand.

Cathie Craigie: So you are always right?

Rosemary Carthy: No. If we provide our valuation and, following further discussion, still think that our valuation stands on its merits, that valuation will stand as the independent value that is provided by whoever—whether the district valuer or whoever is providing the independent valuation.

Mike Watson: So you are a bit like a football referee: even when you are wrong you are right.

The Convener: That is a bit hard.

Mr McAllion: You mentioned that it is part of your professional role to judge the future income stream from any property that is to be transferred. You will know that the Executive intends to extend the right to buy to 40,000 housing association tenants throughout Scotland who do not have it at the moment. The Executive's assessment is that that will lead to an increase in right-to-buy sales of approximately 800 a year. Did it consult you, as independent valuers—or any other independent valuers—before arriving at that figure?

Allan Ainslie: I do not recall being consulted on that.

Cathie Craigie: Does your office keep abreast of the current national housing partnership developments? Are you involved in the on-going work and proposed transfers?

Allan Ainslie: We follow what is happening with interest, but we are not involved in the major proposed transfers in Glasgow or Aberdeen. Under the new scheme, we are involved in trickle transfers in Aberdeenshire, but those involve small numbers.

Cathie Craigie: We spoke earlier about whether there are enough professional tradesmen to tackle the work that we envisage over the next few years. Are there sufficient qualified and competent valuers, in your department and in the private sector, to deal with that?

Allan Ainslie: Yes, I think so.

The Convener: I have a couple of final questions. You said that the Scottish Executive will take the overall strategic view of the valuation of housing. Does the Executive have internal valuation expertise or does it rely on you?

Allan Ainslie: The Executive has its own property department, which provides advice to ministers. However, the Executive also calls on outside valuers and surveyors to provide services. We are a major provider, but there are others.

The Convener: You provide those services?

Allan Ainslie: Yes, as do other private sector surveyors.

The Convener: Your submission says that you

provide advice on taxation issues to the Inland Revenue.

Allan Ainslie: Yes, that is correct.

The Convener: Have you advised it on any taxation implications of housing stock transfers? We have heard evidence on that and other issues, including corporation tax. Who is undertaking the work on that just now?

Allan Ainslie: In my part of the world, we have not advised on the implications. Our head office in London may have an input somewhere along the line.

The Convener: We may want to pursue that issue with you at some point, to find out what that advice is.

Allan Ainslie: Please do.

The Convener: Thank you very much for your evidence. I am sorry for keeping you waiting. Your contribution was extremely useful.

Allan Ainslie: Thank you.

Work Programme

The Convener: The next item on our agenda is the social inclusion work programme. I thank Robert Brown for the work that he has put in and for his paper. It is significant that we are discussing this today, as there is some discussion about the role of the banks in Scotland not being terribly helpful in dealing with exclusion. Robert has often flagged up issues of financial exclusion when we have discussed poindings and warrant sales.

After listening to a radio item on the subject this morning, I thought that I would suggest to the committee that we get some representatives of the banks to come to give evidence on the impact that their role might be having on poorer communities. We may discuss that after discussing Robert's paper.

Robert Brown: This paper follows on from an earlier paper of mine, from a discussion that we had at an earlier meeting, and from a subsequent meeting that Alex Neil and I had. That was a useful meeting and Alex had a lot of good ideas, not all of which are noted here. There was a further meeting involving me, the convener and officials.

We have a time problem—it will be difficult to fit things in when we have discussions of warrant sales and housing stock transfers coming up. The suggestion is that we should start with a comprehensive seminar from the Scottish Parliament information centre. To get things kicked off, that could include input from organisations such as One Plus. We will also try to arrange one or two meetings in which committee members—although perhaps not all of us—will go to different areas, for example Ferguslie Park. I was also keen to consider the way in which colleges fit into this issue; we have had an invitation from the Glasgow Colleges Group.

We could use those discussions to identify the main themes that we want to work on, without making any immediate decisions on any inquiries that we might want to undertake. Any inquiries would probably not happen until later in the year. Having said that, we might want to consider fuel and food poverty; and we might want to consider the social inclusion strategy audit—especially the accountability of the Executive's social inclusion targets. Those are ideas that we can firm up after we have had the initial seminars and visits, the purpose of which would be to get a flavour of the issue to get us started before the summer recess.

Mr McAllion: In your paper, you give a list of groups from whom we could get briefings in May. I have been contacted by people in a poverty action

group in Dundee, who are part of the Communities Against Poverty Network. They are anxious to establish a standing relationship between representatives of poor communities and this committee. That might involve quarterly meetings, at which they would come to discuss social inclusion issues. They even raised the possibility of getting ad hoc membership of the committee. I know that there are problems with that—it has been discussed in the conveners' liaison group and it is precluded by the Scotland Act 1998—but people are trying to find ways round it.

When the Communities Against Poverty Network comes along, I wonder whether we could discuss whether there could be an umbrella group of people who work with poor communities—not just that one group—and whether that group could be given a permanent standing relationship with this committee so that we are always informed by what poor people at the grass roots think, rather than just by what professional advisers from academia think.

The Convener: Absolutely, John. I have met that organisation and we discussed that. The conveners' group is beginning to explore the relationship between committees and outside bodies, and that could be important for our committee. A range of stakeholders and organisations wish to have such a relationship with us; I have received representations from some of the women's organisations on that issue. We should certainly hear from those groups; but we need to consider developing relationships in the way that John suggests. When I get the chance, I will perhaps circulate some of the details of what is going on in the conveners' group, so that people know about that.

Fiona Hyslop: I also met that organisation. If we think of this committee as the one that is meant to be dealing with issues of inclusion, we have to be inclusive ourselves. We have to be wary of reinventing the wheel in the committee; we could use organisations such as the Communities Against Poverty Network to access areas. Rather than us saying that we should be going to X, Y and Z, it could volunteer to do that, and it has a network that could provide us with contacts.

I am not quite clear from this paper what we are trying to do, although I think that what Robert is saying is that we just want to get a flavour of some of the poverty issues before we undertake an inquiry.

Robert Brown: Our timetable is unlikely to allow us to carry out a full inquiry before the summer recess. We will want to kick off with some preliminary work, so that we can give higher priority in our autumn programme to poverty issues than was possible during the previous period, because of pressures on time.

12:15

Fiona Hyslop: If we are considering an overview, we should not spend time evaluating "New Life for Urban Scotland", because that has been done. The mapping exercise would be useful; it would give an overview of what has been done and where. We should not be too general or vague.

A housing bill is to be introduced, and we identified fuel poverty as one of four major issues at the outset. We should bear those facts in mind and, although we might get a general overview during May and June, we should be more focused. An inquiry into fuel poverty would inform our subsequent work on the housing bill.

Cathie Craigie: I do not disagree with much of what Fiona Hyslop said.

All members' diaries are stretched, so we must focus on the matters on which we will take evidence and on which we can make a difference.

I have not had much to do with the Communities Against Poverty Network, but I take on board John McAllion's point about an umbrella group to deal with such issues. The Scottish local government forum against poverty is not made up only of people from local government; people from groups in poorer communities are also included.

We met in Stirling the other week, which was useful, but did we really engage with the people of Stirling? It might be difficult to arrange a committee meeting, with official reporters, but can we not meet one of the groups in the community for a discussion? Perhaps that meeting should be with an umbrella group, rather than with one that covers only one community. The Scottish local government forum against poverty includes representatives from a wide range of backgrounds—it might be useful to speak to it, as we are supposed to work in partnership with local government.

Mike Watson: Surveyors and valuers are likely to be comfortable in a situation such as today's meeting, but community groups might be less comfortable. That is not to say that they would not come, but they might not be as relaxed. We should go to their environment and see—rather than just hear about—the matters that they want to discuss.

Members might recall that when we discussed Robert Brown's report in January, I mentioned a report from Glasgow Caledonian University's Scottish poverty information unit, which Martin Verity circulated. Robert Brown refers to gender issues in his second report, so I suggest that that unit be included in the second stage of briefings in May this year.

Robert Brown suggested that we consider Ivan

Turok's report on the Glasgow-Edinburgh divide. I am not sure that that is particularly relevant. Apart from the fact that the report is outdated, it was felt that the comparison between Glasgow and Edinburgh was not a good one and did not teach us a great deal. I am not saying that we should not be aware of some points in the report, but I would counsel against giving it too much weight.

The Convener: I suggested that we consider that report. Its authors wrote to us to ask to give evidence. The report deals with issues that we should consider.

Robert Brown: To some extent, we had ruled out hearing from the authors, because we discovered that it was an interim report.

Mike Watson: "Glasgow Poorer than Edinburgh Shock." That is not really headline news.

Alex Neil: We must be absolutely clear what we are trying to achieve. There is consensus on starting a major inquiry into the social inclusion strategy in Scotland in the autumn. Between now and then, the purpose of visits and background reading is to familiarise ourselves with the key issues and players, and to do some preparatory work. We should work out the remit of the inquiry so that our objectives are clear. Until we have agreed that remit—as we did with the drugs inquiry—there is no point in talking to lots of people. The remit will give us a better idea of the questions that we should ask, the visits that we should prioritise and the information that we should read.

Having said that, I know that members will have read the information on fuel poverty from the Scottish warm homes campaign. We could consider fuel poverty as a discrete issue, and we should timetable it sooner rather than later so that we have something to say about it before the onset of winter.

Cathie Craigie: I do not disagree that fuel poverty is a big issue, but I suggest that we speak to the umbrella lobby group who have been dealing with it for a considerable time. Let us speak to them in late April or early May, before our timetable is fixed and becomes difficult to change. They could let us know their agenda. We should involve them.

The Convener: Those two positions are not necessarily mutually incompatible. I accept Alex Neil's point about focusing on the remit of the inquiry. Robert Brown would probably agree that people might want to do a wee bit of investigation before tying themselves down. That does not mean that we must wait until October before we decide our remit, but we should begin to process some of the preliminary work before the summer.

The housing bill is coming up, so we may need

to organise a couple of sessions around fuel. We could also raise the fuel poverty issue in the context that Cathie Craigie mentioned. We could search out the community organisations for whom fuel is a big issue, so that we get a broad perspective.

Karen Whitefield: I agree with much of what has been said. We must get a feel for what we want to achieve.

I would like us to look quite soon at credit and access to credit for poorer communities. Banks were mentioned today, but other organisations deal with credit. I was at the board meeting of my local citizens advice bureau in Airdrie last night. Since last December, it has dealt with £1 million of debt in Airdrie alone. That is a frightening figure and I am worried about such figures being reproduced throughout Scotland. Yesterday, I spoke at a coalfields regeneration conference about how miners' welfare groups can play a part as a focal point for the community in former coal mining areas. Such groups hope to work with the CAB to provide money and debt advice.

Credit is high on the political agenda and I would like it to be part of our work. The evidence that we heard on the Abolition of POUNDINGS and Warrant Sales Bill showed that poorer communities and those who are most disadvantaged have the greatest difficulty in getting access to credit. Those people are forced to go to moneylenders and are subjected to unscrupulous deals. We could do something to help and include those people.

Robert Brown: There is a common view that we need to get a flavour of what is going on in various areas, not least by talking to people in communities. That was what we had in mind when we discussed visits. If we were to go to Wester Hailes, for example, it would be to talk not to academics, but to local people. We have received several invitations to do that.

Three issues are emerging. One is the strategy and the social inclusion partnerships; that issue is complex and may take longer than others. The second is fuel poverty; we could include food poverty with that. The third is credit. We have to decide in what order we will tackle those three issues. We must firm up on that so that our programme is agreed before the summer and we can do the preliminary work in good time to fit in with our programme for the autumn.

The Convener: Robert and I will try over the next few weeks to incorporate those recommendations into our timetable.

Alex Neil: We should make a list of organisations to visit. We could go in groups of two or three, but we must get organised soon, as the visits will take time to arrange.

The Convener: That is right. We should get the invitations organised. I shall include Glasgow Caledonian University, but I think that we are all agreed about the other names on the list.

Petitions

The Convener: The first petition comes, once again, from Frank Harvey—I must meet that man. It calls on the Scottish Parliament to stop all Scottish housing associations from using unemployed young people to do the work of the cleansing department of Glasgow City Council. Are there any comments?

Alex Neil: Why do not we simply accept the recommendation, which is to note the petition?

The Convener: Is that agreed?

Members indicated agreement.

The Convener: The next group of petitions is from a range of tenants' federations on the moratorium on housing stock transfers. We have dealt with that issue a number of times and our policy is quite clear.

Alex Neil: Again, we should accept the clerk's recommendation. The issue will be dealt with in our final report on stock transfers.

Mr McAllion: A whole stack of such petitions is coming in now. We should include them all in our inquiry.

The Convener: Is the recommendation agreed?

Members indicated agreement.

12:27

Meeting continued in private until 12:36.

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