

# **SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE**

Wednesday 8 March 2000  
*(Morning)*

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## SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE 10<sup>th</sup> 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

Michael Calvert (Berwickshire Housing Association)

George Finlay (Berwickshire Housing Association)

Hugh Hall (Scottish Homes)

Alick Hay (Berwickshire Housing Association)

Philip Jones (Berwickshire Housing Association)

Carole Oatway (Scottish Homes)

Rita Stenhouse (Scottish Homes)

### CLERK TEAM LEADER

Martin Verity

### ASSISTANT CLERK

Rodger Evans

### LOCATION

The Hub



## Scottish Parliament

### Social Inclusion, Housing and Voluntary Sector Committee

Wednesday 8 March 2000

(Morning)

[THE CONVENER opened the meeting in private at 10:01]

10:19

*Meeting continued in public.*

**The Convener (Ms Margaret Curran):** I welcome everyone to this meeting of the Social Inclusion, Housing and Voluntary Sector Committee. Item 5, which is a reflection on today's discussion, will be taken in private. We move to item 3, which is our forward work programme.

### Work Programme

**The Convener:** We have received a very helpful paper, for which I thank Martin Verity. It is comforting that people are noticing that we are beginning to get ourselves organised around social inclusion. Several people have written to me on a number of issues that I shall raise in due course. It is good to recognise such interest in our work.

I ask committee members for general comments on the points that are made in the paper, before we move on to the recommendations.

**Mr Keith Raffan (Mid Scotland and Fife) (LD):** I am not sure that I have received the list that has been circulated of invitations concerning the drugs inquiry.

**The Convener:** Have you not?

**Martin Verity (Clerk Team Leader):** We will ensure that you receive a copy.

**Mr Raffan:** Convener, can I make one further point without incurring your wrath? I think that we should avoid meeting twice a week whenever possible. Those of us who are on other committees find it difficult to keep up. Fortunately, the other committee of which I am a member does not meet more than once a week, although it meets virtually every week. The result is that I miss meetings of this committee, which I do not want to miss. The consultative steering group anticipated that committees would meet only once a fortnight, which is ridiculous. However, at the other extreme, meeting twice a week is too much.

**The Convener:** I take your point, Keith, and I understand the problem. Can I have the committee's views on that?

**Bill Aitken (Glasgow) (Con):** I concur with that viewpoint. Those of us who have other committee commitments—I know that we all have manifest commitments in other directions—find it virtually impossible to fit in three or four meetings a week.

**Mr John McAllion (Dundee East) (Lab):** I agree to a certain extent. However, this committee will be required to give detailed consideration to the housing bill, and it will take a long time to give that consideration if we meet only once a week, and if the housing bill forms only part of the agenda at each meeting. At Westminster, hours and hours are devoted to the detailed consideration of bills. If we meet only once a week, we will not make progress on the housing bill.

**The Convener:** We are on the horns of a dilemma.

**Mr Raffan:** I accept John McAllion's point. I am asking to be removed from this committee after the drugs inquiry because I cannot attend both committees—it is getting to be too much. I entirely accept what John McAllion says about the way in which committees at Westminster get bogged down in the consideration of controversial bills.

**Mike Watson (Glasgow Cathcart) (Lab):** John McAllion is talking about the housing bill. In the House of Commons, committees have two three-hour meetings two days a week—12 hours a week devoted to the consideration of a bill. When the bill is introduced, we will have to sweep the board to deal with it. This committee will have to concentrate on the bill and on nothing else at that time; otherwise, we will not be able to give it proper scrutiny. The timetabling of the bill is not up to us, and we will be given only a certain amount of time in which to deal with it.

**The Convener:** People have high expectations of this committee, which we all want to meet.

**Cathie Craigie (Cumbernauld and Kilsyth) (Lab):** I hope that the committee does not decide to meet twice a week. It takes all our time to prepare for the once-a-week meeting that we have just now. I do not know how many bills the Justice and Home Affairs Committee dealt with earlier this year but, as they say, "You cut the cloth to suit". That committee had to rearrange its timetable to suit the progress of the bills that it had to deal with. When the housing bill is introduced, perhaps we will have to sweep the board to deal with it. However, the committee should agree to keep to its Wednesday slot and only on occasions, as necessary, meet more than once a week. The work load is increasing for every committee, and I do not think that we can do the job justice if we try

to rush into things.

**The Convener:** I do not know whether this will be helpful to you, Keith, but when we met Laurence Gruer the other day—I know that you could not attend because you were ill—we took the view that it was better for us to prolong the work, and to do it properly, than to try to force it into three or four weeks. It is likely that we will not report on the drugs inquiry until after the summer recess, as we must ensure that members can do a thorough job on it. I would sooner have a thorough job done over a longer period. Will that help you with your work load, Keith?

**Mr Raffan:** It will. I was not able to come to the meeting, but I had a 10-minute conversation with Laurence Gruer and gave him my input into the discussions. I took the same view—that we should not rush the inquiry. I think that we should delay the taking of evidence from Scottish Executive officials until 26 April.

I suggested to Laurence that we have two lists of potential visits: one of visits that the committee will undertake and a second of visits that Laurence suggests that those of us who are particularly interested in the issue could make. Delaying the report until after the summer recess would give us time to undertake those visits during the recess, particularly if they were in our constituencies. That might be quite helpful.

**Robert Brown (Glasgow) (LD):** That is a good principle if we want to make best use of time, provided that people report back on the outcome of any visits that they make so that others are party to the information.

**The Convener:** We are beginning to consider different methods of reporting and of taking evidence, particularly given the nature of the drugs inquiry, which is not the sort of inquiry where we will have 11 people going off to visit somebody. We will report back on that. The Scottish Council for Voluntary Organisations is going to make a contribution.

**Robert Brown:** I think that that situation will apply across the board. We were thinking along those lines for social inclusion as well.

**The Convener:** Absolutely. I refer the matter back to the clerks, so that they can come up with some proposals.

**Fiona Hyslop (Lothians) (SNP):** In general, the recommendations are in order. The only thing that I want to add is the fact that we discussed trying to secure some committee time in the chamber for housing stock transfer. June might be appropriate for that, following the publication of the report.

**Bill Aitken:** The Parliamentary Bureau would welcome that. At this stage in the Parliament's development there is a dearth of committee

business that is of interest and of import. That will change in about six months, but it would be useful to take that into account.

**The Convener:** One of the problems is that we all want June, but I will fight our corner. We have a good case for getting some time, if not in June, then in May.

**Mike Watson:** I want to come back to the timing of the housing bill. I am not suggesting that we sweep the boards now, but when the bill comes to us, there will be so much to go through. The bill will possibly be the most major bill of the four-year parliamentary term. We will have to be prepared to give it a lot of time. We should try to clear the drugs inquiry before then. That is perhaps not in our control, but I am particularly concerned about the period after the summer on the housing bill.

**The Convener:** Martin Verity is in constant touch with sources in the Executive to find out about timetables. That is very much at the forefront of his mind when we are planning our work.

**Mr McAllion:** It might be useful for the convener to raise the issue of committees meeting at the same time as Parliament at the conveners liaison group. The fact that they cannot effectively prevents committees from doing their work properly. We are giving up a day and a half every week, when committees could be doing something, to sit in the chamber where we are not even allowed to speak because we are not high enough on the list. It is a waste of MSPs' time to sit surrounding someone who is speaking for the sake of the television cameras. We could be getting on with the work of the committee. In many ways, the committees are more important than the full assembly of Parliament.

**The Convener:** I will certainly raise that point at the conveners group.

**Mr Raffan:** I endorse entirely what John McAllion said. Nobody dares say it, but we are gradually moving towards the Westminster model, at question time and in everything else. The more we move towards it, the better things are, in many respects, as Westminster does a lot of things well. One of those is allowing committees to sit while the chamber sits. It is ridiculous that we do not do that here, because it cuts out a day and a half a week.

**The Convener:** I will raise the issue at the conveners group and report back. It is an on-going issue. Let us not pursue the point about modelling ourselves on Westminster.

I want to move to the recommendations in the paper. Unless members want to add to or change them, I will assume that they are agreed. I want to add something under 7.3. We do not need to take

evidence on housing issues only from Scottish Women's Aid; there are other women's organisations that will want to contribute. Again, we need to consider how we will take the evidence.

**Mike Watson:** I agree. I raised that issue. It is important that we bracket 7.2 and 7.3 when we write to Scottish Women's Aid, to make it clear that we will come back to them on the wider housing issues.

**Robert Brown:** I want to raise a specific point about social inclusion. We had agreed that we would include One Plus and one or two other organisations in our briefing session, probably on the same day as the briefing with the Scottish Parliament information centre. We also agreed that we would include in our work programme a couple of visits, perhaps by a small group of members, to Wester Hailes or places like that.

**The Convener:** We will programme that in. We had agreed to have in One Plus, Communities Against Poverty, which has indicated that it wants to have a dialogue with the committee, and one other organisation that I have forgotten. That is a terrible mistake to make.

**Robert Brown:** I cannot remember.

**The Convener:** No offence intended. We agreed your proposal last week. Martin Verity will draft that and produce another paper.

**Mike Watson:** Point 7.6 mentions taking evidence from the Executive on drug misuse. Is that the meeting that was originally scheduled for 22 March?

**The Convener:** Yes. It makes sense to conclude the work on housing before the recess and to start the drugs work after the recess, particularly if the committee is willing to expand the work to ensure that we do a good job.

10:30

**Mr Raffan:** Is the meeting with officials only, without the minister?

**The Convener:** Yes. I am advised that that is the standard procedure.

**Robert Brown:** Is that correct? The paper says that we will take evidence from the Minister for Communities on 26 April.

**Mr Raffan:** That is not for the drugs inquiry.

**The Convener:** We are having Wendy Alexander in on housing and Frank McAveety in for the Scottish statutory instruments. At some point, we will want to have Angus MacKay in to talk about drugs. However, apparently we have to start with the Executive and finish with the minister.

**Mr Raffan:** When we get into the drugs inquiry, it will be important to include the cross-cutting ministerial group. I am not sure how we will do that, so we should give some thought to it. The cross-cutting ministerial group consists not only of Angus MacKay, but of Iain Gray, Jackie Baillie and Sam Galbraith. I understand that there are differences of view within the committee. It is important that we find out what they are.

**The Convener:** Yes. We need to probe that. It is useful to keep that on the agenda.

## Housing Stock Transfer

**The Convener:** We move now to our witnesses from Berwickshire Housing Association. I welcome you warmly to the meeting. Thank you for taking the trouble to come and for your submissions. We are keen to pursue a number of issues with you, as you will know if you have read any of our deliberations. I hand over to you to give a brief introduction.

**Alick Hay (Berwickshire Housing Association):** I am Alick Hay, convener of the management committee of the Berwickshire Housing Association. Philip Jones is the chief executive. George Finlay is vice-convener and was chairman of the housing committee of Berwickshire District Council before the transfer. Michael Calvert is a tenant member of the committee. Members will have received the papers from us. I hope not to go over too much of what is in them.

Berwickshire Housing Association was formed in 1994 and was sponsored by Berwickshire District Council as a successor landlord for its housing stock. The transfer eventually took place on 1 September 1995. It is still the only large-scale voluntary transfer to have taken place in Scotland.

Before the transfer we gave certain guarantees to our tenants on rents, the improvements that we intended to carry out and tenant involvement. As a result, we were rewarded in the ballot with 83 per cent support from tenants for the transfer.

We regard ourselves as serving the communities of Berwickshire and as partners of the statutory local housing authority. We promote tenant involvement through newsletters, project groups and public meetings. Our rules ensure that there is always a minimum of four tenant members on the management committee. Now that the guaranteed period is almost over, we are consulting tenants about future priorities.

Our funding comes from Bradford & Bingley Building Society, which offered a total credit facility of £20 million, which can be used flexibly as long as it comes within our business plan. Having outperformed in earlier years, the building society is quite flexible about how we use the surplus.

We have accelerated the improvement package and will have completed it several months ahead of schedule. We will have also provided 60 additional houses, instead of the 40 that were originally planned. We are doing that at a rate of grant, which makes exceptionally good use of public resources. Current new-build projects receive only 46 per cent housing association grant. However, the 60 houses have not been provided fast enough to replace the losses that we

have suffered through the right to buy.

We have a big commitment to improving energy efficiency. Our guaranteed improvements programme has resulted in improved energy performance in every house. We gained a national housing award for innovation for the first six houses that we built. We were awarded an Energysavers award by Energy Action Scotland for a combined heat and power installation at one of our sheltered housing schemes. The further improvement of that scheme has resulted in us being shortlisted for the Transco environmental awards at the Dundee housing conference.

**The Convener:** Thank you. Your introduction was very impressive, as was your written submission. You will know that the committee is considering the process of housing transfers. We have especially focused on large-scale ones. You have experience of that. Will you summarise the positives and negatives of your experience?

**Philip Jones (Berwickshire Housing Association):** We all have positives and negatives from this exercise. The overriding positive is that it gives a new focus on consultation with tenants and tenants services. There is no way that any transfer proposal will be successful in a ballot unless you can demonstrate to tenants that what you are offering them is better than the prospect that they face with the council. As most councils try to do their best for tenants, it is important to focus on the condition of stock and types of services that tenants want. Having started off on that footing, there is no going back. You cannot have a transfer and then say, "We are not going to consult you any more." The tenants' expectations have been built up and they must be met.

The negative is the point that the committee has already identified: this is a complex and expensive process. We are talking about disengaging a large number of assets from a complex corporate structure. There are all sorts of property rights and staff issues to discuss, as well as the process of convincing tenants and setting up the business on a correct footing that will meet their needs.

**The Convener:** Would you make any recommendations to others going through this process?

**Philip Jones:** A lot of our experience has been put into the guidance that has now appeared. The overriding point is not to think that you can produce a magic solution that you can sell to tenants. There must be an understanding of the different directions that are available to a council and you must be ready to go down a specific direction, and say that this is the direction that you want to recommend to tenants. At that point, you must open it up to tenants and get their views on



the way forward.

**The Convener:** What level of service do you provide for tenants?

**Philip Jones:** That is a general question. In comparison with the district council, we have a stronger local presence than it had. Berwickshire covers about 350 square miles and we have houses in 29 communities. We have local offices for services in the three largest communities, which are Eyemouth, Duns and Coldstream. Those offices offer comprehensive services, so a tenant from any of our houses, whether or not it is a house that is nominally served by that local office, can go into any of the offices to find out information about their house, order a repair or take out a transfer application. From a day-to-day service point of view, that is probably what tenants have found most noticeable, because we are more accessible than the old system as the council only had rent offices in two of those places.

In relation to the repairs service, which is probably the most important one, we have good standards. I do not think that we are exceptionally high in the repairs priority standards that we set, which is six hours for a tenant in an emergency, three days for an urgent job and 10 working days for all other jobs. That is good, but it is not exceptionally good. We have about 85 to 90 per cent attainment of those priorities.

We also send out a tenant satisfaction slip with details of the job that they have ordered. Every time that they order a job, they get details of it, such as who will provide the work, a time scale by which it will be done and a satisfaction slip, with a prepaid envelope so that it can be sent back to us. The returns that we get from that show the highest rates of satisfaction that I have ever seen. The satisfaction rate is never lower than 95 per cent and is commonly 98 per cent. I have been in local authority housing for a long time and have never seen satisfaction rates like that.

**The Convener:** We will probe some of those issues later. Who monitors the service?

**Philip Jones:** Apart from the tenants?

**The Convener:** Yes. Is that your method, monitoring by the tenants?

**Philip Jones:** It is obviously the most important one. When a satisfaction slip comes back saying that the tenant is not satisfied, there is an investigation into what happened and there is a report to the management committee as to what happened. We take that extremely seriously.

Apart from that, we are monitored by Scottish Homes on a routine and regular basis. Our funders also take a keen interest in what we do. They are not interested only in whether we are spending the money, but in how we are spending

it. They examine matters such as arrears performance. There is quarterly monitoring from them.

**The Convener:** Are you satisfied with the monitoring from Scottish Homes and the financiers?

**Philip Jones:** Yes, I think it works. I dare say that we could talk about tweaks here and there, but it works.

**The Convener:** Have they helped you to develop your service?

**Philip Jones:** The most help that we get from Scottish Homes is through the setting of performance standards that we have to meet. That gives us a good framework within which to operate. The quarterly monitoring by Bradford & Bingley is very useful; it is informal but rigorous. They pick up on everything that is in the report.

**The Convener:** Is there anything that the committee should keep its eye on in relation to monitoring of the transfer process?

**Philip Jones:** I am biased on this, because providers want to be unmonitored. I do not feel that there are huge deficiencies in the monitoring processes.

**Karen Whitefield (Airdrie and Shotts) (Lab):** The committee has heard evidence from tenants in Glasgow who feel that they will be excluded from the transfer process. In your experience, how were tenants involved in the transfer process and what impact did they have? Can you give examples of where their input was important to the transfer process?

**Philip Jones:** I will give the official BHA view, from the perspective of what we were trying to achieve through the consultation. Michael Calvert will also comment because he was not involved with the BHA at that point; he has come on board since then. He might like to comment on what it felt like to be on the receiving end.

The council and the BHA tried to ensure that there was genuine consultation. Before the BHA was even a steering group, the council had conducted an extensive door-to-door survey to get tenants' views on whether they believed that stock transfer had merit. A series of newsletters to tenants set out the issues and the steps that were being taken.

At the same time, a request was put out for tenants either to put themselves forward to be on an independent tenants panel—because there were no tenants associations in Berwickshire—or to join the steering group. As a result, there were four tenants on the steering group and about half a dozen tenants on an independent tenants panel. Those tenants selected their own independent

tenants adviser—the Scottish Homes initiatives unit gave them advice, which was independent from the council—and the tenants shortlisted, interviewed and then selected Thenew Housing Association as their independent adviser.

From then until the formulation of the proposal that went to ballot, there was a dialogue between the steering group and the independent tenants panel, usually through the adviser. We became aware, for example, of a concern over whether tenants' children would lose the right to buy, and we decided that we could incorporate a contractual right to buy for the first successor tenant after a transferring tenant had died.

Tenants wanted local offices, and that is what made us focus on a totally decentralised service provision. Although I would not say that the issues were tenant-led, we sounded out the opinions of the tenant panel on our capital programme, and especially on our initial focus on what we came to call our three-point guaranteed improvements—double-glazing, doors and insulation. The tenants confirmed our priorities.

That was my view of things; I do not know whether it was Michael Calvert's.

10:45

**Michael Calvert (Berwickshire Housing Association):** As a tenant, I got lots of stuff through the post, and I had people knocking on the door who wanted to consult me. I felt that I was kept well informed of what was going on; for the first time since I became a tenant, I felt that my opinion was being sought. My neighbours would agree with that.

Everyone has their own particular prejudices that affect whether they support or do not support a proposed transfer. In our house, the windows were falling out and the doors were leaking, and I knew enough about local government finance to know that we did not stand much chance of getting the house up to a decent standard if it stayed with the local authority. My first reason for supporting the housing association was that we were promised improvements. Those improvements have since come to pass, which is great. Another reason for being strongly in favour was that I saw the housing association as putting a full stop on the erosion of the housing stock, because of the right to buy.

**Karen Whitefield:** Now that the transfer process is complete, how do you ensure that tenants continue to be involved in the decision-making process? In your opening statement, you indicated that a minimum of four tenants sit as members of the board, but how do you ensure that it is not always the same people who are involved, and that all tenants are aware of what you are doing

and are genuinely involved—if that is what they want—in the decision-making process?

**Alick Hay:** We have a quarterly newsletter to keep tenants informed of what is going on. I have my doubts as to whether anyone reads it, because I have had a gentleman in my office who was a tenant of the housing association and he did not know that I was convener. So I do not know whether tenants read it or not.

We have been actively trying to get people to come on to the committee, but it is difficult to persuade them to get involved. As you suggest, the same people stay on the committee. Michael Calvert has tried hard in Coldstream, in his area, to get a local committee of tenants together to air their views; again, that has been fraught with difficulty. They do not really want to know; they do not want to get involved.

However, we have tenant consultation meetings once a year, and we go round the different communities. The best word to describe the attendance is spasmodic. However, we have had some successful meetings recently concerning the new rent structure. We inherited a rather higgledy-piggledy rent structure from the council, and we were stuck with it for five years because that was part of the guarantee. We would like to get things on to a basis whereby, if someone is in a three-bedroom house, they pay the same as someone else in a three-bedroom house. That does not happen at present. We have tried to explain that and to find out the tenants' views. Those meetings have been well attended. We try hard, but it is not easy to persuade people to get involved.

**Philip Jones:** We have found that tenants are not—or they do not seem to be—interested in forming local tenants associations in Berwickshire. I do not know whether that is because we have not yet found the right way of encouraging them, or whether it is because there is already a strong community life, and the sort of people who would run a tenants association are probably already involved on the committees of other organisations.

There is significant interest in particular projects. When we put together a tenant handbook, about 15 people came along to a meeting and gave us feedback on the way that it was put together. We had a meeting when we reviewed allocation policy. As you can imagine, our review of the rent structure has been a very interesting topic for tenants, and a worthwhile exercise from our point of view. Such things attract interest, and we do not always see the same faces. We get a variety.

**Karen Whitefield:** You say that you have had some difficulties with local tenants groups. How would you define a community, and how would you ensure that local communities, as part of the wider housing association, are in a position to take

control—should they wish to—of housing issues that are important to them?

**George Finlay (Berwickshire Housing Association):** You must understand that we have 2,000 houses that are spread over a large number of what, in a rural context, we would term communities. Some of those communities have only eight or nine houses. I would not use the phrase that you used: we have not had difficulties with tenants groups—we have had difficulties in forming tenants groups in the three or four large communities that have around 500 houses. I do not think that that is because of apathy. In specific instances—discussions on rent, for example—tenants have made their views known. I do not think that they would want to be a part of a group that discussed everything, but they like to be consulted on specific issues.

We have provided transport so that people in the smaller communities can attend central meetings, so people are not being excluded in any way. People are kept well informed of dates of meetings and bus collection points. We have tried hard to get them to come.

To some extent, we view all that as a success of the system—people turn out only when they have a complaint. If people have a complaint, they are voluble enough and will make their point. Because of our set-up—with IT connections and so on—people can make their complaint at any office and it will be dealt with centrally or locally depending on its nature.

**Karen Whitefield:** How do you monitor tenant satisfaction? Are there any particular issues on which tenants are not happy with you, or are they generally satisfied? Have tenants noticed a real difference following the transfer?

**Alick Hay:** As Philip Jones said, for routine repairs, we receive tenant satisfaction slips. The committee has asked to be informed about unsatisfactory repairs. All repairs are done by subcontractors, and we want to know if they are not performing as well as they should be.

Especially on the three-point programme, we like to ensure that people come back to us if there is a problem, but obviously, if people do not tell us about a problem, we will not know about it. I am not convinced that we are hearing about everything, but we are trying to get on top of that by working on communication within the organisation.

**Karen Whitefield:** Is that something that you want to work on in future, to ensure that you monitor tenant satisfaction better?

**Alick Hay:** Yes.

**Philip Jones:** In the very near future.

**Mr Raffan:** Mr Calvert, you described your house as it was under a local authority. Were you happy with the quality of the renovations?

I would also like to ask Mr Jones about the time scales for the initial renovations of the housing stock. Did the time scales create the problem of getting the construction industry to undertake the work to a high standard?

**Michael Calvert:** The refurbishment was of a high standard. I examined the gas consumption for our central heating and found that we used 25 per cent less gas during the first winter after improvements had been made. The house is much more comfortable.

The other vital issue, which trespasses on your question to Mr Jones, is that the timetable was adhered to. We were decanted out of the house and into a caravan for a week. When work is being done, one needs to know exactly what is happening. We knew right from the beginning that we would be moving out on whatever the date was in July and moving back in a week later, and that is what happened. The programme was adhered to throughout.

**Philip Jones:** That was a successful contract—we did 80 houses in 20 weeks. We were pleased with the contract, on which we got a good price.

Keith Raffan was right to highlight the capacity of the local building industry. It is important to try to time contracts and so on in such a way that one is likely to get the best price. So far, that has not been a problem for us.

We had to undertake a number of different repairs and major works. We had a limited number of catch-up repairs, which were scheduled for the first three years and all of which have been completed. We then introduced our guaranteed improvements programme, which was spread over five years. The five years will be up in September, but we have managed to accelerate the programme and, with any luck, the work will be completed by April.

We found that what we did last year was most effective. Rather than following the practice of the council and putting out a lot of individual contracts, we negotiated one large contract and gave the contractor greater continuity of work. In turn, that meant that the contractor was able to go to the local college, recruit a couple of apprentices and take on some new staff. Therefore, there has been a wider benefit from that approach and we aim to go down that route in future.

**Mike Watson:** Mr Finlay, you were convener of housing at the time that the transfer took place.

**George Finlay:** Yes, I was.

**Mike Watson:** What within the council's housing

committee drove the move towards the transfer?

**George Finlay:** At the time, Berwickshire District Council was aware of changes in the cost floor and the right to buy. The council had built houses throughout its lifetime—it did not stop doing so at any point—not in great numbers, but enough to meet local need. However, when the cost floor was changed, councils were selling relatively new houses under the right to buy at what could amount to a loss. Most councils in Scotland had stopped building, but we needed family housing and were not prepared to punish the tenants who remained after those houses were sold four years down the line at a loss of £16,000, which was accrued to the debt.

We examined the opportunity to transfer stock by going to England and seeing what had happened there and by taking advice from various people. The real drive was the ability to provide new housing that was exempt, if you like, from the right to buy. We felt that it was our duty to provide social rented housing. I am going back to the early 1990s. The more we examined the detail, the more we thought that a housing-specific organisation could develop and provide better services to our tenants and communities. Obviously, things are moving on and the right to buy might change, but—

**Mike Watson:** I do not have to ask for the view of Berwickshire Housing Association on the proposals, as your view is clear.

I want to ask about your view of the stock. There is an article in your submission with the heading:

“The new cooncil is better than the auld cooncil”

and the sub-heading:

“Philip Jones describes how Berwickshire Housing Association blazed the transfer trail”.

In the article, Mr Jones says:

“The stock was generally good”.

I am struck by the fact that that jars a bit with Mr Calvert’s description of his own house, with windows falling out and doors leaking.

In the housing stock transfer that we have been considering and in the on-going pilot schemes, I do not think that many, if any, of those involved would say that the stock is “generally good”. What was the general state of Berwickshire District Council’s stock? Were you doing repairs as often as you wanted to? I ask that question of Mr Finlay in his role as a council employee at that time.

**George Finlay:** It is fair to say that, because of the cutback in resources, the number of renovations was slipping. We were not able to follow programmes which were like those that we had undertaken in the late 1980s.

It is also fair to say that the stock was in a good state of repair, but that would depend on the benchmark used. All councils would probably claim that their stock is in a good state of repair, yet there are always areas that slip further down and where stock deteriorates. Of course, there might have been structural problems with some of the stock which we could not address under the council’s system but which we have been able to address under the housing association’s system, because we were able to access private money. The council was obviously unable to do that.

**Philip Jones:** I should point out that, although I did not use quotation marks in the article, the phrase that the stock was “generally good” came from a survey report produced by Countrywide Surveyors as part of the stock transfer. Countrywide Surveyors said that, of the stock transfers in which it had been involved, the Berwickshire stock was the best. I take on board Mike Watson’s point about Mr Calvert’s house, but one wonders what the rest were like.

11:00

**Michael Calvert:** May I butt in to clarify what I said?

When I said that the windows were beginning to fall out, I did not mean that they were hanging off the walls; I meant that they had begun to disintegrate. I rang the council and the council had to come and patch them up. They had begun to fall apart, but they did not do so only because they were patched up.

**Mike Watson:** I presume that repairs and maintenance were carried out by a direct labour organisation beforehand, when Berwickshire District Council owned the stock.

**George Finlay:** The council’s policy was always to keep local businesses involved in maintenance work as far as possible.

**Mike Watson:** Did Berwickshire District Council have a DLO?

**George Finlay:** No, never. When we established the housing association, we met local tradesmen and said to them “There will be no change. We will still be using you for the painting work, for general maintenance and repairs.” It is important in small communities to keep small businesses of one, two or three men working. It was not in the council’s interests suddenly to—

**Mike Watson:** That is fine—basically, the same people who undertook repairs before the transfer continue to do so now, although no DLO was involved.

I noticed that your key dates included consultation with staff and the unions and so on. I

also noticed that you have 29 full-time equivalent staff. How does that compare with the number of people who worked in Berwickshire District Council's housing department?

**Philip Jones:** I think I can fairly say that Berwickshire District Council had one of the meanest, leanest housing departments I have ever come across. The housing department had 10 staff.

**Mike Watson:** That was mean.

**Philip Jones:** It was certainly lean. [*Laughter.*]

**George Finlay:** It was also mean.

**Philip Jones:** As one would expect, staff in the finance department also had housing functions. In total, about 18 people were entitled to transfer to the association, if they so wished.

**Mike Watson:** Housing allocation arrangements were mentioned earlier. I do not know your part of Scotland well, and while I do not imagine that homelessness is a major problem there, I presume that problems exist.

In your submission, you say that the council has a right

"To nominate 100% of homeless persons with a Berwickshire connection towards whom it considers it has a statutory duty".

Have you been able to deal with people who have presented themselves as homeless to the local authority since the establishment of the housing association?

**Philip Jones:** Yes. Scottish Borders Council, which is the housing authority now, runs its own assessment and reception service for homeless people and has its own temporary accommodation. When it is satisfied that somebody meets the criteria for priority need, it lets us know. So far, we have been able to rehouse such people.

**Mike Watson:** Are the needs of the homeless being met by your housing association?

**Philip Jones:** The homelessness service in the area went on record a year or two ago to say that they were satisfied with the service that we provide.

**Fiona Hyslop:** Who scrutinised the valuation that was carried out at the time of the stock transfer?

**Philip Jones:** There was a lot of scrutiny of the valuation. Chapman Hendy Associates, the transfer consultants, put together a valuation that was subjected to formal independent scrutiny by the district valuer. That resulted in what one might call a negotiating exercise being undertaken. Berwickshire Housing Association and

Berwickshire District Council eventually agreed that there was merit in accepting the district valuer's position. At that point the funders wanted verification and FPD Savills was appointed to conduct a further valuation exercise, which produced different—although not substantially different—results, and which was of sufficient comfort to the funders.

**Fiona Hyslop:** Who scrutinised the value of the arrangement to the public purse? The value of other transactions and set-up costs was more than £1 million and the value of penalties and early redemption was £385,000. That is almost double what you were left with in the development fund. Who scrutinised that and what was included in the other transaction and set-up costs?

**Philip Jones:** The responsibility for that scrutiny lay with the then Scottish Office, which went through a process with the Treasury. Some of the other transaction costs are still revenue for the public purse, for example, because of the amount of stamp duty that is paid. There were expenses for the extensive legal work that was done on the transfer agreement and conveyancing and there was the cost of the transfer consultants.

**Fiona Hyslop:** It might be helpful for the committee if you were to provide us with a breakdown of what was included in the additional costs, as you are the only people who have gone through such a stock transfer.

**Philip Jones:** I am sure that I could dig out the schedule.

**Fiona Hyslop:** That would be useful.

**Alick Hay:** The costs included everybody's costs. When we sat down at the final signing meeting in a lawyers' office in Edinburgh, there were—at one point—15 lawyers sitting round the table. We were paying for them all. Bradford & Bingley Building Society, being an English company, used English and Scottish lawyers. We also used English and Scottish lawyers—one set did the housing association work and the other did the property transaction work. The council used lawyers and we paid for them all.

**Fiona Hyslop:** Therefore, there were more lawyers than there were housing department staff.

**Alick Hay:** The legal fees were horrendous.

**Fiona Hyslop:** I wanted to ask about how you use your development fund, but you seem to be outperforming your original estimates and you are expanding the number of houses that you are building.

**Alick Hay:** The development fund is not quite controlled by Scottish Borders Council, but it must agree with any spending of that fund that we suggest.

**Fiona Hyslop:** Has your business plan performed well?

**Alick Hay:** Yes. We use the development fund as a sort of housing association grant.

**Fiona Hyslop:** I understand that about one third of your rental income is being used to service the private finance deal. Is that amount likely to increase in future? I would like you to answer that question from two perspectives—if there were no changes to the right to buy and if there were.

**Alick Hay:** Our debt is not going down—we are not repaying it. It is increasing and that was our plan. The debt started at £11.5 million and it is proposed that the debt should peak at £20 million at year 15 to year 17 of the programme.

The original business plan allowed for rents to increase by inflation plus 1.5 per cent for the first five years. That was the guarantee. Thereafter, they would increase by inflation plus 2.5 per cent.

**Philip Jones:** The average over the whole business plan was an increase of 2 per cent.

**Fiona Hyslop:** Expansion of the right to buy would affect the housing association, as there would be a greater burden on fewer rent payers. That would result in additional expense.

**Philip Jones:** We have examined that and the effect of it would be disturbing. It would not—fortunately or unfortunately—affect the financial viability of the housing association. A reserve account is built into the loan agreement. Once a certain number of right-to-buy sales have taken place in a quarter, all the proceeds are put into that reserve account. The funder must then decide whether to release that to the business or use it to repay the debt.

In later years, if the extended right to buy were introduced, many of the receipts would go into that reserve account and that capital would be used to repay the debt. We would be financially viable, the funder would be repaid and there would be no great calamities for the tenants. The initial examination that we conducted suggested that the number of houses that was being managed in Berwickshire would decline from the current 1,900 to about 1,100 or 1,200 by the time that the loan was repaid. In that process, costs per house would increase by 75 per cent—assuming that we took no action to tackle that. That would completely undermine the housing association as a business and as a lively partner for the local authority. We would be much more dependent on public sector grants. We would not dare to put money in that we were not going to get back—that would create a burden on tenants. That would be the biggest threat posed by extension of the right to buy.

**The Convener:** We will follow up by asking more detailed questions about financial calculations.

**Philip Jones:** We have produced a model—I would not say that it is the last word in sophistication, but we will share it with the committee.

**The Convener:** I am sure that it would help us.

**Robert Brown:** That would be useful. I gather from your reports that the improvements that you have undertaken are to do with heating, insulation and so on. Was there major work to be caught up with on roofing, the fabric of the buildings and environmental repairs?

**Philip Jones:** We have been lucky regarding roofs—they have not been a significant problem. However, quite a lot of houses—particularly those built in the 1970s—had a problem with roughcast coming off. Some of that had a lot to do with occasionally severe coastal exposure. Those repairs have been a major exercise.

The biggest single job was in the scheme where Michael Calvert lives. Timber-frame houses were built there in the 1970s and not only was the roughcast coming off them, but the joists were over-spanned and the floors were bouncy. In one case, they had given way. The heating system had been partially renewed, but the windows were as Michael has described them and the doors were pathetic. We discovered walls that had no insulation in them and walls in which the cavity wall ties were breaking down. There was a major overhaul—we had to remove kitchens and bathrooms in order to strengthen floors, so we had to pay for kitchens and bathrooms as well. The result was a comprehensive modernisation.

**Robert Brown:** Does your stock include any hard-to-let houses, which are a feature of places such as Glasgow?

**Philip Jones:** I would not describe any of the houses as hard to let. In rural communities, people tend naturally to apply for housing where vacancies are likely to occur. Smaller communities—two, four or six houses—will attract only a small number of applicants for housing. A vacancy will not necessarily result in an immediate let. It takes a bit of time for word to get round.

There are no houses for which there is no waiting list, but some of the waiting lists are very small.

**Robert Brown:** Can you give us an idea of the level of investment so far in those major improvements to stock?

**Philip Jones:** To date, we have spent about £7 million on such capital improvements, a significant advance on what the council was able to do in

latter years. The council was being held to less than £1 million a year. We have managed £7 million in about four and a half years. It is not revolutionary stuff, but it is a major advance on what was there before. Tenants see it as being worth while.

**Robert Brown:** Will your financial programme be able to cover any such future requirements, as well as the bigger, routine, cyclical requirements that you mentioned in your report, for example, the three-yearly repainting?

11:15

**Philip Jones:** I come from a local authority background and one of the wonderful things about the stock transfer was the opportunity to look ahead and ask what we will need to do in, say, eight years' time. We could not be exact about it but we had a good idea, and we could start to plan for it, cost it and ensure that the money was there. That is why we have £20 million of facilities. We have drawn down £14 million, because we know that, in future years, expenditure will be needed—that will help us to meet our commitments.

**Robert Brown:** Are you managing to meet your programmes for the routine three-year cycles?

**Philip Jones:** The three-year cycle is no problem; in fact, the time scale is one of the best decisions we took. We are now at the beginning of the third cycle, and the amount of work involved this time round is far less than it used to be on a longer cycle. It is a time scale that is worth advocating as good practice.

**Robert Brown:** As a Glasgow member, I gasp with wonderment—

**The Convener:** I was thinking that myself.

**Mr McAllion:** I want to pursue the rent guarantee in more detail. Transferring tenants have a rent guarantee, until 2000, of retail price index plus 1.5 per cent. Any tenant who was allocated a tenancy after the transfer date in 1995 has no guarantee.

**Philip Jones:** No. In practice, we have been able to offer them the same rent increase—

**Mr McAllion:** So there is no guarantee?

**Philip Jones:** No.

**Mr McAllion:** Do those who have been allocated the 60 new properties, whether they are transferring tenants or new tenants, have a guarantee?

**Philip Jones:** The transferring tenants retain the guarantee.

**Mr McAllion:** You say in your evidence that the rents of tenants who do not have this guarantee—

the new tenants—could be approximately 20 per cent higher.

**Philip Jones:** We had to include that in the business plan, because of the way that the valuation eventually went. We put a premium of 20 per cent on new rents.

**Mr McAllion:** You say in your literature that the three apartments can vary from £31.48 a week to £49.41 a week. I take it that that is not related to whether there is a guarantee. However, it would mean that if a new tenant got one of the three apartments at £49.41 a week, they would be paying £10 a week more than anyone else.

**Philip Jones:** They would only pay that rent for one of the new houses that has been provided since transfer. There is no premium for the new houses—the premium only applies to the houses that were transferred.

**Mr McAllion:** So a new tenant moving into one of the 60 new houses could pay up to £10 a week more than transferring tenants.

**Philip Jones:** No. They would pay exactly the same rent in that house as a transferring tenant, because—

**Mr McAllion:** Where does the 20 per cent come into it?

**Philip Jones:** If it is a re-let of a house that was transferred from the council, then there is a 20 per cent—

**Mr McAllion:** So a new tenant would pay up to £10 a week more for a re-let apartment.

You say that you intend gradually to harmonise the differences in rent over the 20-year period to 2020. Does that mean that you will harmonise them upwards, so that transferring tenants will start to pay the same rents as new tenants?

**Philip Jones:** That was the intention in the business plan. The idea, as Alick Hay said, was that after the rent guarantee period, we would pay a higher annual rate of increase on the transferring tenants than on the new tenants, because of that 20 per cent premium. They would, on average, pay 2.5 per cent above inflation per year, after the rent guarantee.

However, we have spent a lot of money on bringing houses up to the same condition. There are good windows, doors and insulation in all the houses. Everybody thinks it is ridiculous that there should be a wide differential, so we are working with tenants on a new rent structure that will be based on the size and the condition of property. That will allow us to make transitional arrangements, and it will not be finalised without full consultation with tenants. However, tenants have already made it clear that the 20-odd year period that was in our business plan is

unacceptable; they think that it should happen sooner. We may be looking at between five and 10 years.

**Mr McAllion:** So, under this new rent structure, the guarantee given to transferring tenants will eventually disappear and everyone will pay the same.

**Philip Jones:** The guarantee expires at the end of this month.

**Mr McAllion:** But even the 2.5 per cent guarantee beyond—

**Philip Jones:** That was not a guarantee; it was just an indication.

**Mr McAllion:** So we do not know what people will be paying 10 years from now.

**Philip Jones:** The pressure on rents is such that it is unlikely that RPI plus 2.5 per cent will be tenable in future.

**Mr McAllion:** So, in the years ahead, rent increases for your tenants are likely to be well in excess of inflation.

**Philip Jones:** It depends what you mean by well in excess.

**Mr McAllion:** I mean 3 per cent or 4 per cent.

**Philip Jones:** I am saying that there is downward pressure.

**Mr McAllion:** Councils are being hammered for increases in the council tax of 5 per cent above inflation.

**Philip Jones:** The way that we are going on affordability and so on, there will be downward pressure, so 2.5 per cent is likely to be the maximum.

**Mr McAllion:** Can you tell us what level the rents will be constrained to? Will there be an upper limit?

**Philip Jones:** That would not be sensible. The funders would not be happy if our income was artificially capped. However, everybody is conscious that we should have a rent level that people can afford to pay; otherwise, our income drops in another way.

**Mr McAllion:** Would not housing benefit take up the slack?

**Philip Jones:** Will it? It is being reviewed. We do not know.

**Mr McAllion:** I do not know. That is why I am asking you.

**Philip Jones:** I am not making the decision about housing benefit regulations.

**Mr McAllion:** Neither am I, unfortunately.

**Philip Jones:** All I am trying to indicate is that there is a wide range of scenarios. We simply have to plan as best we can. It is not possible to make commitments.

**Mr McAllion:** So the guarantee goes to 2000 and not beyond.

You make the fair point that by developing a sound interest rate strategy, you can create reserves that are available either to reduce debt or to invest in the stock and so on. However, that kind of skill—managing debt—is available to local authorities, for example, whose finance departments have been doing that for many years. That skill is not necessarily to be found in a housing association. Is it a skill that you have to develop? Is there training for it? Do you consult local authorities on how to do it? How do you manage that new skill?

**Philip Jones:** It is more simple—there are expert advisers that will do that kind of work. However, we have a qualified accountant who is well able to do that.

**Mr McAllion:** Somebody referred to staff who were performing a housing function within the finance department of the local authority. Am I right in saying that they would be the experts who managed the debt?

**Philip Jones:** No. As you rightly identified, the finance post is a crucial one in the stock transfer organisation. We recruited externally for that. Both of our post-holders have come from other housing associations.

**Mr McAllion:** So most housing associations, if they go down the stock transfer route, will have to have financial experts who can advise them on how to do this.

**Philip Jones:** Traditional associations manage a portfolio of debt. There is good, inexpensive advice out there.

**Mr McAllion:** It is not too expensive?

**Philip Jones:** By comparison with the others.

**Mr Raffan:** Or compared to lawyers. [*Laughter.*]

**Cathie Craigie:** John McAllion has highlighted that the rent policy seems to be quite a complicated system. Is the fact that new tenants will have to pay 20 per cent more an incentive for people to join your waiting list? Are the tenants generally satisfied with that?

Are there examples of such a policy in other associations? Did you have a model that dictated that you should adopt this policy?

**Philip Jones:** I do not know whether other associations in Scotland operate that policy. However, it has precedents in English stock



transfers, although in some cases the premiums went to ridiculous levels. I am unhappy enough with 20 per cent as a premium, but I know that our consultants were working with another association on a transfer where the premium was 38 per cent.

As new tenants are offered a tenancy at a particular rent, they know what to expect when they take it on. Furthermore, we give them a slip that says that the rent is 20 per cent higher than for transferring tenants so they accept the tenancy on those terms. We are not pulling the wool over their eyes. However, no one feels that such a system is equitable, which is another reason for reforming the rent structure sooner rather than later.

**Cathie Craigie:** One of your newsletters says that Berwickshire Housing Association is unique in Scotland, as it was the first to become the owner of council housing through large-scale stock transfer. The association is also unique in Scotland in having a policy that means a 20 per cent rent increase for new tenants.

**Philip Jones:** Although I said that I do not know of any other examples, that does not mean that they do not exist.

**Bill Aitken:** You maintain that the numbers involved are hardly significant, but it is clearly quite important to the tenants. When the staff transferred, were there any changes in their terms and conditions, or did the Transfer of Undertakings (Protection of Employment) Regulations handle that problem?

**Philip Jones:** Although there is no alternative to following the TUPE regulations, we constructed our own sets of employment terms and conditions which were an enhancement of council terms and conditions but were structured in a way that suited our business better. Nobody who transferred has lost any money; in fact, most people are on rather higher salaries than they would have been if they had stayed with the council. However, you should remember what I said about Berwickshire District Council before we get too carried away about that.

**Bill Aitken:** Yes, and I accept that we cannot really make a comparison between the numbers. Have you retained all the staff?

**Philip Jones:** Yes. Although there have been some changes, turnover has been quite low.

**The Convener:** Thank you for your evidence, which was extremely helpful. We might follow up one or two points with you, and will probably request details about some of your answers.

**Alick Hay:** Thank you very much for listening to us.

**The Convener:** I want to move on swiftly, as is our wont, and welcome representatives from

Scottish Homes to the meeting. I have just been checking and I think that Scottish Homes is the only organisation that we have asked back again. You never know—you might become regular visitors to the committee. However, I am sure that you understand why we want to discuss these issues again.

First, can you briefly introduce yourselves.

**Hugh Hall (Scottish Homes):** I am Hugh Hall, director of strategy, performance and regulation at Scottish Homes. I have responsibility for community ownerships, the registration supervision department, finance, performance and the Scottish Homes strategy. With me is Rita Stenhouse, head of the community ownership initiatives department, and Carole Oatway, registration supervision director. Although the committee had invited only Rita and me, I thought that it would be useful if Carole came along. We have been following some of the proceedings of the meetings, and concerns have been expressed about some of the regulatory aspects of the process.

Members might have read the bumf that we have provided, and I will refer briefly to one or two aspects of it. Our transfer policy has clear objectives and we have successfully transferred more than 40,000 houses over the years. The objectives are outlined in the documentation and, as members will see, one of the major aims is to give tenants a greater say about their housing circumstances and a greater certainty about future rent levels and expected investment. We feel that we have successfully achieved another aim of accelerating investment.

11:30

In the bumf, we have taken some time to indicate how our process of tenant involvement and participation has developed. There was a lot of reluctance at the start, but now a significant amount of tenant participation happens early in the process. That has been reflected in the ballot results that we have received. This week, 92 per cent of Scottish Homes tenants in north Ayrshire voted in favour of the transfer, which we think is a direct result of our new approach to tenant involvement.

We have also given the committee a brief insight into the regulatory process, which involves a lot of work. We have invited the committee to meet us and discuss the issue in greater detail than we will be able to do this morning.

**The Convener:** One of our great frustrations is that we never have enough time.

We will probe some of the issues that you have raised. Before I let in committee members, can I

kick off by saying that you have helpfully supplied us with material on evaluations that you have conducted on the transfer process. However, could you reflect on some of your experiences about the process? What lessons have you learned and what recommendations would you make? Furthermore, can you give some of us some pointers about where we should be going?

**Hugh Hall:** As I am the new boy, I will pass that question over to Rita Stenhouse, who has led most of the transfers.

**Rita Stenhouse (Scottish Homes):** When we started transferring our stock, the environment was very different and the process was not necessarily politically correct. In those days, we were required to do certain things such as seek competition when transferring the stock; however, the situation has now evolved.

One of the strongest pieces of advice that I can give anyone embarking on the process is to involve tenants from day one. Tenants—along with owners, Scottish Homes, council representatives and others depending on the area—have been involved in steering groups, commissioning stock surveys and option appraisals and deciding on the best strategy for their area. For example, they can decide on the type of landlord that they want; whether there should be a series of ballot areas or just one; or whether they should transfer to existing organisations or set up a new organisation.

**The Convener:** What will be the role of Scottish Homes in the proposed transfers?

**Rita Stenhouse:** We have been providing advice and support to councils embarking on the process.

**The Convener:** Exactly what services have you been offering them?

**Rita Stenhouse:** We have offered to share our good and bad experiences with them.

**The Convener:** Have they been listening?

**Rita Stenhouse:** Well, sometimes, but councils will decide themselves how to proceed.

**Hugh Hall:** Although we have given councils a general awareness of the process, the circumstances are quite different. For example, Scottish Homes stock was spread over a huge geographical area, whereas local authority stock is within the council boundaries. Perhaps councils must also take a wider perspective, because they have a wider strategic role to play at a local level. Although we can give councils a lot of information about the mechanics of tenant consultation and private finance, we are always keen to stress that we have learned from a number of years of experience. There is scope for local authorities to

do things differently from us and we are simply sharing our experience to help them formulate their own views on what is best for them.

**The Convener:** You would tell local authorities that are going through the process that there are factors that determine successful transfers. We are trying to work out what those factors are, and we are interested in your experience of having undergone the process. What factors emerged from dialogue with local authorities?

**Rita Stenhouse:** I stress the need to involve tenants from the outset. The tenant consultation process is essential. We also advise that, early on in the process, local authorities should obtain a stock condition survey to get an indication of investment needs. They should study that along with the housing trends and housing demand for the area to inform the options for the stock in the future. They should take on board tenants' views and involve them in that process.

It is not just about transfer of stock from one body to another. The wider strategic requirements of an area, its needs and many other factors must be taken on board in deciding what is best for the stock. We have tried to persuade local authorities that a comprehensive option appraisal is important.

**The Convener:** Do you have any worries about what you have observed of the transfer process? Are there concerns that you think are not being fully addressed?

**Rita Stenhouse:** I only hope that others will not go down the same avenue as we did, reinventing the wheel and coming across the same pitfalls.

**The Convener:** Do you think that mistakes are being made at the moment?

**Rita Stenhouse:** Some councils have not started by consulting their tenants at the outset. However, they are now beginning to do that. Initially, their motivation factors are different.

**The Convener:** Are you generally positive? Is this a good time for Scottish housing?

**Hugh Hall:** We have been sharing our experiences with councils. All councils are different. Some may follow our advice and some may decide to follow a route that they consider more appropriate for their circumstances. I do not doubt that mistakes will be made along the way, but we should be able to learn from those mistakes as we progress.

Scottish Homes' future involvement will not be restricted to raising awareness through our experience of the initiative side. Scottish Homes will be the regulator of the new organisations that emerge from the process. Carole and her team have been working with councils more at arm's

length than Rita's team has done, as it is important that the regulator takes an arm's-length view, but they have offered advice on the shape of the new body. When we get to the point at which transfers are taking place, the new bodies will be subject to the regulatory process and will have to pass a certain number of tests before they begin to operate.

**Karen Whitefield:** Can you explain Scottish Homes' role in registration and monitoring?

**Carole Oatway (Scottish Homes):** We are responsible for registering housing associations in Scotland. We are limited in that we cannot register other types of organisations under statute. However, last year we introduced an option for housing companies to register with us on a non-statutory basis, by setting up a contract with us by the terms of which we both agree to abide. Having said that, only a couple of organisations have gone down that route. We hope that future housing legislation will make that a short-term, stop-gap approach. We hope to be able to register every type of organisation under statute eventually.

The registration process is important, because we often deal with newly emerging organisations. Although we cannot test them against performance standards as we could test an existing organisation, it is important that they should reach a certain standard before tenants vote to transfer their houses to them. We deal with that by publishing a clear set of registration criteria that we expect new organisations to achieve before we give them our badge of approval.

That set of criteria is based on principles agreed by our board: that there should be value for money for tenants and for the public purse; that there should be a commitment to provide affordable rented housing; that tenants should have the opportunity to be involved in the management of their stock; that there should be opportunities for wider community empowerment and involvement. We want all organisations to show early commitment to continuous quality improvement. No body starts off running; there are several stages involved in achieving the criteria. We also want those organisations to act as a catalyst for regeneration of communities and social inclusion.

We also have specific requirements. We visit the organisations and assess whether those requirements have been achieved before we register them.

**Karen Whitefield:** Do you believe that all registrations should be statutory? Are there any downsides to contractual registrations? What would Scottish Homes prefer?

**Carole Oatway:** Our preference would be to have every organisation registered under statute.

A level playing field is always preferable. We introduced contractual registration because there was not the option to offer a wider group of organisations statutory registration. The limitations of statute were that they drove new housing organisations down a specific route, demanding that they had a certain constitution and set-up. If Scotland is to address its housing problems, it must be more flexible than that. In the longer term, I would like there to be statutory registration for all. The lenders prefer that, because it offers them greater protection in terms of the powers that become available to the regulator. The tenants can also rely more on the regulator being able to address any problems that arise.

**Karen Whitefield:** What criteria do you use to monitor performance? Do you believe that the present criteria are satisfactory? Will they continue to be suitable as more stock is transferred?

**Carole Oatway:** I have always believed that our performance standards have been the backbone of our regulatory framework. They have been revised three times since they were first introduced in 1991. They are not simply set and then never developed. One of their key advantages is that they are not handed down by the regulator to those who are regulated. The process by which the standards are set is a negotiated, consultative one. All those who are regulated are involved in deciding what the standards should be. When we publish the standards, they are jointly badged by ourselves and by the representative body of those who are regulated. There is real ownership of those standards.

As we widen the number of organisations that fall within the regulatory framework, we will have to ensure that they all have the chance to be consulted. We are not yet sure how many representative bodies there may be in future. The challenge for Scottish Homes will be to maintain the universal ownership of the standards that we set.

**Karen Whitefield:** Are you aware of any landlords who have experienced performance problems? Why have those problems arisen? Is it to do with size, geographical area or diversity?

**Carole Oatway:** I am a great believer in the diversity argument. I think that there is room for extremely small organisations and for extremely large ones. Nobody could cite one factor as the sole cause of failure.

If I was being entirely honest, I would have to say that some of the smaller organisations face a greater challenge meeting performance standards. That is down to simple things. For example, if only three staff work for the organisation and one of them is on holiday, another takes ill and the third

has to be at a meeting, how easy is it to keep the door open for tenants, who might want to come in and discuss things?

Many of the smaller organisations have been considering how to overcome some of those difficulties. There is more evidence of joint working between small organisations, and there are probably lots of advantages that small organisations can offer. The quality of governance, staff and services have the most bearing on the success of an organisation. Not all organisations have their own staff; some have to buy in services, the quality of which is variable.

11:45

**Karen Whitefield:** I appreciate what you have said, particularly about smaller housing associations. Do you have any experience that suggests that larger housing associations, especially those that cover a wide geographical area, find it more difficult to deliver on the goals of community empowerment and tenant involvement? Is Scottish Homes aware of any particular cases in which such difficulties have arisen? If so, how could it ensure that the goal of community empowerment is delivered?

**Carole Oatway:** It is much easier for community-based organisations to identify their communities. Whereas they have a ready-made legitimacy in an area, more geographically dispersed organisations have to think longer and harder about how to deliver on our objectives of community empowerment and tenant involvement, although I have seen excellent examples of how those objectives are being delivered, and great improvements have been shown in recent years in that regard. People are trying to find new ways to link people in and get them on board.

We will be looking for the very large organisations to come up with some innovative ideas about how to deliver the benefits that have been brought by the traditional community-based organisations over the years.

**Hugh Hall:** Scottish Homes has powers that it can exercise in the event of continuing performance failures. They come under what we call section 17.

**Karen Whitefield:** I was just going to ask you about those.

**Hugh Hall:** Under section 17, we have the power to nominate people on to the management committees of housing associations. The most draconian power is to transfer stock to another organisation. In recent months, we have taken a backward look at how we have exercised those powers over the past decade. It was interesting to note no real correlation between performance

failure and size; there is a fair spread of performance failure among various types of housing association.

One of the main reasons for performance failure is the quality of management. I cannot recollect any cases in which the performance failure was due to a lack of tenant empowerment or involvement. Apart from the quality of management, it is a matter of financial viability.

**Carole Oatway:** And the two are often related.

**Karen Whitefield:** I would like to move on to whether your powers to intervene are sufficient. Do you believe that section 17 appointees can address the problems that housing associations face if they fail to perform and fail to deliver for their tenants? Do you believe that it often takes far too long for section 17 appointees to be put in place and to start delivering?

In my experience, the Gap Housing Association has failed the people of Lanarkshire miserably, the numerous section 17 appointees have not made any difference, and a transfer of engagements—which is a very long, protracted process—is now being considered. When the stock was transferred, people were made promises that their housing stock in Airdrie was to be renovated within five years. It will now be at least six or seven years—probably a further 10 years—before any of the regeneration work on some houses is completed. In Lanarkshire alone, of the 700 units of stock, 30 homes have been renovated. Are your existing powers sufficient? Will you have sufficient powers when disputes arise between landlords if they fail to deliver on nominations—with regard to homelessness—or if they fail to deliver community care needs?

**Carole Oatway:** You have raised a very important point about the difficulty section 17s have addressing the problems of an organisation alone—especially if the organisation has taken some time to get into its problems. It can sometimes take quite a long time to get out of them. We had an internal exercise to review the use of section 17s. The board wanted to know why it took a long time for section 17s to have an effect and how successful they had been in addressing the problems of an organisation.

One of our conclusions was that to make the powers under section 17 work better, it would be preferable to bolster the governance that the section 17s can offer with operational support, either at staff level or at director level. Often, the staff and the board of governors are at odds. The process can be slow and frustrating for people who come to a meeting only once every two weeks or once a month and find that what they thought they had asked to be done has not been delivered.

There is room for strengthening our existing powers. Section 17s have had a great deal of success, but we will never come up with a super-fast solution for bringing an organisation from not meeting performance standards to meeting them. Part of the reason for that is that they are community led. Tenants are involved, and people have to be brought along with the process. Section 17s have often been most successful when they have dealt with a fairly hostile existing arrangement of governance and have shown how they can bring something to the party that is not resisted or rejected all the way.

There is still lots of mileage in using section 17 appointees and there is room for strengthening the process.

**Hugh Hall:** The Gap Housing Association is a particular example. We would not pin it up as a measure of how successfully things have been done.

In the review we mentioned earlier, it is sufficient, in the majority of cases, to nominate section 17s. We are indebted to them. They give their time voluntarily to turn housing associations around, and in the vast majority of cases they are very successful.

There are ways to bolster our legislative powers. We will discuss that with the Scottish Executive in the context of the forthcoming housing bill. Comparing this sector with other sectors in which I have worked, I think that the regulatory powers are fairly draconian as they are. It is perhaps more a matter of how we exercise those powers.

In the case of Gap—about which I would be more than delighted to talk to Karen Whitefield outwith this room—litigation and staffing issues were involved. That meant that the whole process was more protracted than we wanted.

Scottish Homes is keen not to jump in and try to sort things out. It is very important that housing associations and management committees are given every opportunity and support to turn things around themselves. Only when things have gone so far down the line—beyond saving—would we bring our other powers to bear.

**Karen Whitefield:** To me, Gap highlights all the things that can go wrong. What powers does Scottish Homes have to intervene if the landlord runs into financial problems and is not able to deliver on its commitments to its tenants?

**Hugh Hall:** We try to ensure that the landlord does not get into financial problems in the first place. Our regulatory regime is geared towards avoidance of such situations rather than dealing with the mess that is left if something goes wrong. That is why, with a stock transfer, we have to have teams of advisers—accountants, lawyers and so

on—to enable us to do proper risk assessments to pre-empt any problems. However, we can intervene to the extent of transferring assets from one association to another, which is the most draconian power I have come across in any regulatory process I have been involved in.

**Carole Oatway:** The point that you are really interested in is whether our powers will lead to tenants getting what they expected. Although I accept all the criticisms about this being a slow process, we would hope when using transfer powers to transfer assets to an organisation that has the financial strength to ensure that promises to tenants are delivered.

**Rita Stenhouse:** In our submission, we have indicated that over the years we have developed a standard contract of sale that builds in the commitments that new landlords make to their tenants prior to a ballot. Those commitments relate to promises about rents and investment, and there are clauses in the contract of sale that make them binding. Registration and supervision monitors not only against overall performance standards, but against the contract of sale for 30 years. That protection offers tenants confidence. It was not our stock that transferred to Gap in Airdrie and I am not sure that such protection was in place there.

**Robert Brown:** In your memorandum you touch on your growing experience of giving advice to local authorities on stock transfer. Has Glasgow City Council requested any advice from you on its proposed stock transfer? Have you been involved in that in any way?

**Rita Stenhouse:** Only in one instance, when we were asked by the Executive to have discussions with Glasgow City Council about costs. I believe that our managing director in Glasgow has been involved in the steering group, but the initiatives unit in Scottish Homes has not been directly involved.

**Hugh Hall:** Over the past several months, we have been fairly closely involved with the Glasgow City Council proposals. As Rita mentioned, Ewan Johnston, our managing director in Glasgow and north Clyde, is working with Glasgow City Council colleagues on those proposals. One of our board members, Rani Dhir, is also involved in her capacity as a member of Glasgow Alliance. I have been involved in discussions with housing officials and the Scottish Executive, providing advice and helping to shape some of the proposals. Carole Oatway and her team have been involved in discussions about the shape of the new landlord and other issues associated with governance.

**Robert Brown:** However, your intervention has come not at the request of Glasgow City Council, but since the Scottish Executive became involved

in the task force, has it not?

**Hugh Hall:** No, we were contributing before the Scottish Executive became so closely involved with the proposal. We had very early discussions with David Comley and his team at the housing department.

**Robert Brown:** I want to ask about the future role of Scottish Homes. At the moment you have a certain size of staff, but there is a growing number of housing associations, new transfer bodies and the like. Do you have the staff and the range of expertise to deal with the foreseeable extent of your monitoring and regulatory role?

**Hugh Hall:** We think that our monitoring role will inevitably expand and become more complex. The organisations that we currently monitor, while diverse, are small in comparison with some of the proposals that are emerging from local authorities' considerations. I use those words advisedly, because we still do not have a clear view of what the new structures will be. Carole Oatway and her team are gearing up to deal with a more complex working environment, but we are caught between the need to gear up for the future and our uncertainty about what the future may bring. That is why we are taking a situational approach to the expansion.

In her announcement before Christmas about the future of Scottish Homes, the Minister for Communities mentioned that we would have an enhanced regulatory role and that that role might be extended to include the landlord functions of local authorities. Over the coming months we need to do some work on the skill base that we will need to support that. We think that we have a good skill base at the moment, and one of the things that we have been very good at over the years is retraining and redeploying our staff. Staff who were previously in housing management have been involved in bridging programmes into initiatives and into registration and supervision. We want to accelerate that process.

12:00

**Robert Brown:** Can you use staff who have been made redundant from your original landlord role in that context, or are you having to consider doubling your numbers or increasing them by half?

**Hugh Hall:** The numbers are rather uncertain. We know that we will have to expand, and we have designed the bridging programme so that we can reskill staff and ensure that we do not lose good staff who might otherwise be made redundant.

We have been very successful at doing that, particularly where the housing management role is

involved. Our main problems are in the corporate function areas, where we have a legal team that has been downsizing over the years. Most legal staff want to be lawyers and do not want to become regulators, so we have had some compulsory redundancies there. However, I think that we have been fairly successful at making the transition.

**Robert Brown:** If proposals such as that for the Glasgow single-vehicle regime go ahead, involving a transfer mechanism and, in due course, other community bodies as the ultimate owners, how will the regulatory function operate? Who will be regulated and who will be regarded as responsible? Do you think that it will be difficult to sort out the various lines of command and communication?

**Hugh Hall:** I see no difficulty. We have not received detailed proposals from Glasgow City Council, so we are speculating at the moment. However, I understand that the city-wide organisation that it is seeking to develop will be a housing association. It follows that, under statute, it will be regulated by Scottish Homes. I do not see any lack of clarity there. I assume that there will be a contract between Glasgow City Council, which is transferring the stock, and the city-wide organisation; monitoring activity will need to be dealt with within that context. The council may look to the regulator to fulfil that part of its responsibilities on its behalf.

We assume that if there are second phase transfers or if Glasgow City Council decides to set up smaller organisations, they will be subject to registration and supervision as well. The circular on new housing partnerships that was issued by the Scottish Executive announcing the funding mechanisms made it very clear that the quid pro quo for support with debt or new housing partnerships funding was that all vehicles should be regulated.

**Robert Brown:** But there may be a more complex structure, with a central body and, in due course, smaller groups. Do you think that you will have a role in resolving any disputes that arise between those?

**Hugh Hall:** As regulator, we would not want to get involved in holding the jackets in disputes between the city-wide organisation and smaller organisations. We would like a mechanism for dealing with disputes—arbitration and so on—to be built into the transfer process up front, so that the regulator is not the first and last line of defence. In that situation, we would step in only when there was an irretrievable breakdown. I suspect that, because of our continuing monitoring arrangements, particularly for new organisations, we would be on their doorstep. We hope that mechanisms would be in place to give us an early

warning, so that we could intervene in a way that would enable the parties to deal with their differences, rather than act in a more draconian way.

**Robert Brown:** You would be the divorce lawyers rather than the mediators in that context?

**Hugh Hall:** That is a good analogy.

**Carole Oatway:** There are examples of group structures that are operating in Scotland in which a clear joint agreement document sets out the relationship between the parent organisation and the subsidiary organisation. Those agreements tend to devolve a lot of power to the subsidiary organisations. We have not come across any major disputes between the parent and the subsidiary.

**Robert Brown:** Can you cite any examples of the sort of organisations that you are talking about?

**Carole Oatway:** The Home Group, which is registered with the Housing Corporation in England, has a registered subsidiary in Scotland. When we registered that organisation, we were keen to ensure that it had a lot of autonomy and could deliver against our objectives for registered organisations in Scotland. The organisations have a clear joint agreement that allows the subsidiary to operate without interference from the parent, provided it satisfies the terms and conditions of its business plan.

**Robert Brown:** It might be useful to make that one of the documents that we might follow up on.

**The Convener:** On that theme of following up—Fiona.

**Fiona Hyslop:** Some of the lenders who have spoken to us have said that they would be interested in financing deals other than stock transfer if the package stacked up. When you attended the committee previously, you said that you were considering other ways in which to finance housing—in particular, securitisation, syndicate purchase and special purpose vehicles—and that you could give us a paper that would outline those options. We have not received that paper yet. Would you be able to provide it for us?

**Hugh Hall:** The committee received a paper. It was sent in December, before Christmas.

**Fiona Hyslop:** We received information on cost comparisons.

**Hugh Hall:** Two papers were submitted to the committee: one contained cost comparisons, the other contained a synopsis of the three types of innovative finance.

**Fiona Hyslop:** We have not seen the second

paper during our preparation. We will check up on that. Could you give us an outline of those options?

**Hugh Hall:** I am in no doubt that the papers were sent; however, I can give you an outline. When we last spoke, we said that we were exploring other options, one of which was securitisation. Some authorities are considering securitisation in the context of retaining ownership of the stock while still being able to generate finance on the back of the income streams. That option has now been ruled out by the Treasury and I understand that it would count against public sector finance. That does not rule out the possibility of a securitisation deal in a housing association context, but we understand that it cannot now take place in a local authority context without the private finance being a score against the public purse.

**Fiona Hyslop:** Have there been any developments on special purpose vehicles?

**Hugh Hall:** A special purpose vehicle is simply a mechanism whereby, instead of the funding going directly from the funders to housing associations, housing associations form themselves into syndicates for the transmission of funding—for the generation of funds as a club, if you like. The cost of finance would be a good deal less as a result of the bulk purchase arrangements.

**Fiona Hyslop:** That confirms that the core of the stock transfer programme is taking housing finance off balance sheets to help generate finance. Is that your view?

**Hugh Hall:** I do not know of any other way in which to deal with private finance without taking it out of the public sector, other than PFI—and we feel that PFI is not suitable for large-scale stock transfers.

**Fiona Hyslop:** We could obviously have a future debate on the SNP's public service trust.

We will check whether we have copies of that paper. If we do not, we will ask you to re-submit it. I would like to ask about your debt portfolio. You raised millions of pounds from your transfer and had to invest a substantial amount of that into housing. What is your current debt portfolio, and how will you deal with its repayment in the future?

**Hugh Hall:** This issue has been brought into sharper focus by the fact that Scottish Homes is converting from a non-departmental public body to an executive agency of the Scottish Executive. It is therefore a topical subject.

Scottish Homes has around £190 million of debt on its balance sheet. We reckon that the asset value of the stock that is yet to be transferred—and these are ball-park figures—is around £60 million to £70 million. The bottom line is that we

will have a residual debt of a fairly significant sum. In the early years, the receipts from stock transfers were diverted to our programme and were used to pay for new developments—rehabilitations, new homes, and so on.

A couple of years ago, my predecessor—who is now at the Scottish Executive—examined the balance sheet and decided that that could not continue, as we were technically insolvent. At that point, a decision was made to take the receipts from Scottish Homes's stock transfers and use them for the repayment of debt. The Scottish Office also made a contribution to the repayment of some of our debt. Our debt was making us technically insolvent, in accounting terms, so funds have been allocated by the Scottish Office over the past couple of years to help us to repay our debt. However, even if we devoted all our remaining receipts to the repayment of debt, we would have a residual debt of around £100 million.

**Fiona Hyslop:** So you will have to be bailed out?

**Hugh Hall:** We will have to deal with that. It will come down to a straight choice between repaying debt and suffering significant breakage costs. In repaying our debt, we will repay loans that have lower rates of interest and therefore the lowest breakage costs. However, we now have debts with fairly high rates of interest, and the breakage costs associated with them are significant. We will either have to write off the debt or service it during the period that is still left on those debts.

**Fiona Hyslop:** Would you ever have allowed one of the organisations that you monitored to get into that financial situation?

**Hugh Hall:** No.

**Fiona Hyslop:** Accountability was with the Scottish Executive—the Scottish Office—which would have known your debt portfolio at that time.

**Hugh Hall:** Ultimately, the accounts and reports are the responsibility of the Scottish Homes board, which submits its accounts to the Scottish Office. When Scottish Homes became aware that diverting transfer receipts to fund new build was not tolerable, it alerted the Scottish Executive to that and a mechanism was put in place to deal with its technical insolvency.

**Fiona Hyslop:** I would like to continue this line of questioning, but perhaps we should move on. In its evidence to this committee, the Council of Mortgage Lenders said that lenders would be looking for asset cover ratios of 1:1.25 rather than the 1:1 ratio that has traditionally been achieved in Scottish Homes stock transfers. I want to pursue the issue of low asset ratios. We are not financial experts in this committee, so perhaps you might want to explain the significance of low asset ratios.

What would you regard as an appropriate ratio for Scottish council housing stock?

**Hugh Hall:** As CML pointed out, 1:1 is the standard asset cover, although the ratio is different south of the border. We are pressing strongly for the CML to stick with the 1:1 ratio, as we think that there is sufficient slack built into the valuation. Stock transfers are valued on the basis of a 30-year cash flow model, which builds in rent, associated costs and the cost of private sector funding. In building in the cost of private sector funding, an 8 per cent discount rate is applied, which equates to an interest rate of about 10.5 per cent.

Currently, organisations are being charged much lower levels of interest, and we think that there is sufficient fat in there to give the credit committees of lending institutions the comfort to lend to organisations. The whole thing is inextricably linked with other things such as warranties. Scottish Homes has had a relatively easy ride in terms of warranties and so on, and we need to explore the question of asset cover and warranties in relation to the larger transactions.

**Fiona Hyslop:** On warranties, Dumfries and Galloway Council said that it did not think that there was a problem—it was prepared to give full cover and warranties.

**Hugh Hall:** It does not work like that. The Scottish Executive, or the organisation that ultimately signs off the Dumfries and Galloway deal, will want to ensure that as little risk as possible remains with the public purse. Over the years, we have been resisting granting warranties and we have had a fair measure of success. I suspect that in some of the larger deals, the lenders may apply a good deal more pressure. There will have to be negotiations about the amount of risk that is transferred and how much that will cost. The risk might be transferred to the lenders, but the margins will increase as a consequence. It is swings and roundabouts.

12:15

**Bill Aitken:** How do you ascertain value for money for the public purse in the individual projects that you undertake? Last December, you sent us a memorandum in which you pointed out that it was perhaps misleading to assume that comparisons of differing costs of borrowing were the proper criteria to apply to the calculation. You gave us figures showing the registered social landlord 20-year borrowing rate as 6.53 per cent, with a 1 per cent margin built in, as opposed to the 6 per cent offered by the Public Works Loan Board. If those comparisons are spurious, how should one calculate value for money for the



public purse?

**Hugh Hall:** I do not think that we used the word “spurious” anywhere in the submission. We said that

“It would be misleading only to use the comparative costs of investment finance in determining whether a project offers value for money to the public purse.”

I was trying to point out that the cost of the finance is only one element in the overall calculation. The figures that I gave the committee demonstrate that there is a margin that has to be paid to obtain money from private lenders rather than the PWLB.

We are expecting a whole range of benefits for the communities where transfers are taking place. There is accelerated investment in the stock, guarantees on future rent increases and growing community-based organisation and tenant involvement. In that context, people like me—accountants—are last in the race in terms of value for money. I can give the committee all the figures, but the value-for-money judgment must take account of other non-cash benefits.

**Bill Aitken:** Fine. Examining the prices that you have obtained for your own stock over the years, I see that there seems to be a fairly significant variation, for no apparent reason, although I dare say you will come up with some explanation. How do you account for the variation from £7,000 per house over the years down to £2,000, and to more than £12,000 in some cases? The timing does not seem to be relevant and I cannot understand why that variation has occurred.

**Hugh Hall:** The model is a standard one, but if you knew our stock, you would realise why there is a significant difference in the valuations. Some of our stock is in reasonably good nick, whereas other parts of the stock require significant amounts of catch-up repairs and improvements. Without going into detail, I would suggest that that is the major variable in the calculations. The assumptions regarding management costs and funds are fairly standard, but the quality of stock that is transferred will have a major impact on the unit value that is attached at the point of transfer.

**Bill Aitken:** Would it be fair to say that when you started the exercise, which is a worthwhile one, the condition of the stock that was initially transferred was better than that which you have transferred recently?

**Rita Stenhouse:** I do not think that it would be true to say that. The variation continues even in the current stock.

The value and condition of the stock relates to the expenditure over the 30-year period. We carry out a stock condition survey, consider the options for the stock and make decisions on what future investment that stock needs. If the stock requires

a higher level of investment, the value is reduced; if it requires a lower level of investment, the value is higher. It is a discounted cash flow. That might sound simplistic, but those variations will continue across the stock that is left.

We are still transferring stock that has a zero valuation as well as stock that is valued at £15,000 per unit.

**Mr Raffan:** I would like to ask Ms Stenhouse how the initiatives unit advises people to keep costs down in stock transfers. Mr Hay gave the example of 15 lawyers around the table and said that the legal expenses were horrendous. In your submission, you mention that you have transferred 41,000 houses in 83 different transfers. The legal expenses must have been horrendous, particularly if English building societies were involved.

**Rita Stenhouse:** Like Berwickshire, we are fairly lean and mean. I have no experience of 15 solicitors sitting around the table, but we have an in-house legal team, the new landlord will have a solicitor and the lender will have a solicitor. Our in-house legal costs are about £124 per house.

**Hugh Hall:** The experience in Berwickshire was at the very early stages of stock transfer. Over the years, everyone has become more comfortable with the process, including the England-based lenders, which are now lending quite heavily. There have been significant reductions in costs. However, we still need to engage with lawyers, accountants and so on as part of the process. I suspect that the process is much leaner and meaner than it was.

I would advise councils following this route not to reinvent the wheel, but to make use of the existing expertise. Rita Stenhouse’s team, the community ownership initiative team and our in-house legal team have made it clear to councils that we are more than happy to assist in the process and to provide advice about minimising costs.

**Mr Raffan:** I realise that the Berwickshire transfer might have been in the early days and matters have improved somewhat.

In your submission there is a contractual commitment to £820 million in investment. Can you tell us over what period that investment will be undertaken?

**Rita Stenhouse:** That will extend over the 30-year period. It does not include day-to-day repairs or maintenance; it is capital investment only.

**Mr Raffan:** What evidence do you have that those contracts are being fulfilled?

**Hugh Hall:** Carole Oatway’s department monitors the contracts to ensure compliance. Our finance department has a mechanism to scrutinise annual reports and accounts. We check the levels

of investment. There is a combination of a desktop review and a more substantive review that is carried out by Carole's team.

**Mr Raffan:** Ms Oatway, can you give me an undertaking that all the stock transfer contracts in the list in the submission document are being fulfilled?

**Carole Oatway:** The contracts that we have checked are being fulfilled.

**Mr Raffan:** Are you sure? What about Paragon Housing Association in Clackmannanshire? When I met Clackmannanshire Council last Friday afternoon, I was given a fairly ghastly report of the performance of Paragon in Clackmannanshire.

**Carole Oatway:** Most of the contracts have only indicative annual costs. There is flexibility in the contract for certain amounts to be spent over fixed periods. We try to ensure that the contract conditions are not breached. I can think of a number of examples of housing associations varying their rate of expenditure. As long as they meet their full commitment by the end of the period, we are satisfied that the contract conditions are being met. I do not say that no one will breach contract conditions, but if they do, we will know that they have done so and we will raise the matter.

**Mr Raffan:** Clackmannanshire is a small council, whose housing stock, unusually, is in good condition and which has relatively satisfied tenants. Unlike Mr Calvert under the previous regime, many tenants, I gather, are happy with the situation in Clackmannanshire. A contrast strongly in favour of the council was drawn between the performances in terms of renovation and maintenance of Clackmannanshire Council and Paragon Housing Association.

**Hugh Hall:** That observation was made by the council and was hardly an objective comparison between its performance and that of Paragon.

**Mr Raffan:** That is why I am asking you for an objective view. You can knock down or support the council's view.

**Hugh Hall:** Paragon is a relatively new organisation, which was subject to pre-registration and post-registration audits by Carole Oatway's team. We are satisfied that it has the capacity and management abilities to deliver on its contract. If Clackmannanshire Council has evidence to the contrary, Carole would be happy to hear from it. However, I think that it is unfair to single out Paragon on the basis of a comment by Clackmannanshire Council comparing itself with Paragon.

**Mr Raffan:** You say that it is unfair to single out Paragon. Although I accept that Scottish Homes has to make general statements, I encounter

examples—Paragon is only one—where there is a problem. I get a different view from my constituents. My concern is the extent to which you are monitoring housing associations. I get feedback from tenants, not to mention councillors, that is different from what you are saying.

**Hugh Hall:** I assure you that Paragon is very accountable to its tenants and to Scottish Homes. If there are problems, we will be delighted to hear about them and to pursue them.

**Mr McAllion:** I want to return to the debt question. I did not quite pay attention to your answer to Fiona Hyslop.

**Fiona Hyslop:** It was good. You should have been listening.

**Mr McAllion:** As I understand it, some years ago, when Tories like Bill Aitken were in power at Westminster, the Government gave Scottish Homes a special grant of £250 million to write off the outstanding debt at that time. You are telling me that, despite that huge Government subsidy, Scottish Homes used its receipts from stock transfer to fund its development programme rather than to pay off its debts, that the error of its ways was only discovered a couple of years ago and that the Scottish Executive then made a further contribution. What was that further contribution?

**Hugh Hall:** You are correct to say that there was a debt write-off of about £250 million. As a consequence of a revaluation of the balance sheet of Scottish Homes there was a shortfall in the account. Central Government made funding available to deal with that shortfall. We were then back on an even keel, so it was judged that it was sensible to use receipts for the programme.

**Mr McAllion:** It is obvious that you were not on an even keel. You were using money that you should have been using to reduce debt to invest in a development programme.

**Hugh Hall:** With hindsight, one can see that that is the case. We should have used the money—

**Mr McAllion:** Who guards the guardians? Who monitored this and told you that you were doing the wrong thing?

**Hugh Hall:** We should have used the money for the repayment of debt. It was only when Scottish Homes pointed out that that situation could not continue that we decided to use receipts to repay debt.

**Mr McAllion:** What was the Scottish Executive contribution?

**Hugh Hall:** I can send you the detail of that. It was about £40 million.

**Mr McAllion:** So another £40 million of the limited budget of this Parliament had to be used to

bail out Scottish Homes from the error of its ways over many years.

**Hugh Hall:** You could look at it another way.

**Mr McAllion:** You could, but I have chosen to look at it in this way.

12:30

**Hugh Hall:** I suggest that we spent some of that money several years ago to accelerate new building and improvements that might not have taken place if we had used the money to repay debt. It could be viewed as reasonable to manage one's finances in such a way that one spends—

**Mr McAllion:** Spend now, pay later. It is the Scottish Parliament that pays the bills that the Tory Government incurred some years ago.

**Hugh Hall:** In managing one's finances one takes decisions about whether to spend or to repay one's debt. We were happy about our decision until recently, when the decision not to repay debt started to impact on the technical insolvency of Scottish Homes. We then approached the Scottish Office, which agreed to assist with the repayment of debt.

**Mr McAllion:** I know of tenants of Scottish Homes who are resolutely opposed to transfer, and insist that they will remain with Scottish Homes. I think that you will put them out to some kind of management in the future if they refuse to transfer to a housing association. Will their rents be used to pay off the residual debt and will their rents go up as a result of the debt?

**Hugh Hall:** No, we—

**Mr McAllion:** How will the residual debt be cleared?

**Hugh Hall:** We need to work with our Scottish Executive colleagues to deal with the transition of Scottish Homes from a non-departmental public body to an executive agency. The need to address the residual debt will be included in the financial considerations.

**Mr McAllion:** If Scottish Homes does not pay back the debt, the Executive has to bail it out by clearing the debt.

**Hugh Hall:** The situation could be addressed in several ways. One way would be to write off the whole amount, but another is to continue to service the debt as Scottish Homes is doing at the moment. We have £20 million in interest charges built into our budget. We are still considering how to tackle the debt.

**Mr McAllion:** We will ask the minister about that when she comes.

**The Convener:** We will need three days for the

minister.

**Mr Lloyd Quinan (West of Scotland) (SNP):** I do not know how to follow John McAllion.

Who scrutinises the Scottish Homes stock transfers for value for money? Who will do that when Scottish Homes becomes an agency of the Executive?

**Rita Stenhouse:** We do not expect to have much stock left by the time we become an agency of the Scottish Executive.

**Mr Quinan:** But you will have some stock left.

**Rita Stenhouse:** It looks as if we will have small pockets of stock. We do not know whether those houses will remain in our ownership, whether they will be transferred elsewhere or whether we will make alternative management arrangements for them. We have told tenants that we will cease to be a landlord from March 2001.

**Mr Quinan:** Who currently scrutinises Scottish Homes transfers for value for money?

**Rita Stenhouse:** Scrutiny is carried out in a number of ways. Members of staff in my team assess proposals for value for money. The proposals then are submitted to the Scottish Executive. Formerly, the Secretary of State for Scotland had to approve proposals on various value-for-money and other criteria.

**Hugh Hall:** Proposals are also subject to a test check by the National Audit Office, which scrutinises a number of files annually to ensure that the work has been done correctly.

**Mr Quinan:** So how did the technical insolvency arise?

**Hugh Hall:** The issue of the technical insolvency was raised by Scottish Homes and not by the auditors.

**Mr Quinan:** I know that, but my questions are about scrutiny of value for money in Scottish Homes.

**Hugh Hall:** In reviewing the accounts, we took the view that if we carried on applying our receipts to our programme, we would eventually have a very heavy debt burden with no assets to back it up. We then decided to start repaying some of the debt.

**Mr Quinan:** So the scrutiny is purely internal.

**Hugh Hall:** No, our accounts are subject to scrutiny by the NAO.

**Mr Quinan:** As Rita Stenhouse has just said, you will be left with a small residual stock. Will that be because of tenants' demands to remain with the residual stock or because of fundability?

**Rita Stenhouse:** There will be a little bit of both. We do not yet know which estates will remain in our ownership, but it is likely that we will have one estate that is made up of Orlit houses, which are designated as defective but which will last for perhaps 10 or 15 more years. They are in an area that does not attract grant funding. Unless we are able to package that stock with stock in another area—which is not possible using the stock that we own—it will attract a negative valuation and a grant of at least £7 million would be required to demolish it and build new housing. The problem is complex and will continue beyond March 2001.

We will probably also have a small estate in Glasgow with 200 houses. Tenants have explored transfer options with a range of different landlords and have decided that they want to remain with Scottish Homes, mainly because of the assured tenancy.

**Mr Quinan:** Although you cannot give us precise figures, can you give us an indication of the numbers of houses that you will be left with? You said that there were 200 houses on one estate.

**Rita Stenhouse:** The other estate, East Balornock, has 250 houses. We might be left with another estate in Anderston. We are doing structural surveys of the stock there and developing further the first stock condition surveys. We will discuss the findings with the Anderston tenants and they will be involved in the future of those houses. That exercise might not be complete by March 2001, so we cannot say whether we will be left with that stock.

With regard to the stock that is in our ownership, either transfers are under way or we are about to set up steering groups involving the local tenants, councillors and others in the area to consider options. That stock might well be out of our ownership by June 2001, if not March 2001.

**Hugh Hall:** We have successfully transferred more than 41,000 houses. The way in which we have done it might be different from the way in which councils are doing it. We took a situational approach to the transfer and have been working our way through a programme that is based on ballot areas and communities. Before the minister made the announcement about the future of Scottish Homes in November, we had decided that we had to have an end point in mind to give us a degree of certainty in the transfer process. The fact that the minister wants Scottish Homes to become an executive agency has brought the question of residual stock into sharper focus. If Scottish Homes continues to be a landlord as an executive agency, the Scottish Executive will be, by default, a landlord as well.

As Rita Stenhouse said, there is a degree of

uncertainty because all the remaining transfers are subject to ballots. Tenants might decide, as have the tenants in Govan, that they do not want to transfer.

There are also problems associated with what we call negative valuations, where the value of the stock, even on the basis of a 30-year cash flow, is less than zero, so we need to address that. In some of the other transfers, such as that in Cumbernauld, which is at a delicate stage, there is a high preponderance of owner-occupiers. That creates issues that also need to be addressed. We have a clear plan of what we have to do, but it is subject to external factors such as financing, tenants' preferences and other issues. We persevere.

**Mr Quinan:** When you are left with residual stock that you cannot transfer because a group of tenants have decided that they do not want it to be transferred, where will those houses go, or who will pay for you to get rid of them when you become an executive agency?

**Hugh Hall:** I am not suggesting for a moment that we will want to get rid of them when we become an executive agency, but it is something that we need to consider. Our intention is to transfer the stock in totality, because that is best for tenants, in terms of investment profile, rent certainty and everything else. However, if tenants choose not to transfer, we will not force them to do so, but we will need to enter into a dialogue with tenants groups and others to determine what the best arrangements might be for the future of the stock.

Those arrangements might vary from Govan to the western isles. We have stock in the western isles and Shetland that will be particularly problematic, and the options are limited. As we have done up to now, we will take a situational approach, and an approach that puts the tenants at the centre in deciding how we take the matter forward.

**The Convener:** We are running short of time, as ever.

**Mike Watson:** My question is for Rita Stenhouse, given her responsibilities. I am interested in the fact that Scottish Homes set up an initiatives unit, which you mentioned in your memorandum. You say that that was done

"Learning from the early experiences in 1992".

What were those experiences, which led you to establish the special unit?

**Rita Stenhouse:** There were a number of factors. In 1989, when Scottish Homes was required to consider stock transfer, it was pretty much an unknown. Nobody in Scotland had done it, apart from the publicly funded transfers in the

cities. We set about the task by asking our housing management staff to explore options with local tenants. The staff felt under threat, particularly when we were required to seek competition, because they did not know what their future would be. Tenants and staff had fears.

In that scenario, many of our staff started talking to local tenants and saying, "Rather than have those housing associations cherry-picking from the best of the stock, and leaving us we don't know where, why don't we consider setting up organisations to compete?" I use the word "compete" because that created another conflict of interest for the staff. One of the main factors that influenced the setting up of the unit was to remove local staff from that conflict of interest.

**Mike Watson:** The conflict of interest concerned their job security.

**Rita Stenhouse:** No. Job security may have been one factor, because they felt under threat, but where staff had started to talk to tenants about setting up new organisations to compete, how could they then be involved with tenants in exploring the wider options and appraising proposals? That was an obvious conflict if they were going to be in competition, so there was a second conflict of interest.

Our 74,000 houses were spread across the country. I stress again that the situation was new, and nobody really understood transfer, or had any evidence of its benefits, in terms of certainty about rents and investment over a 30-year period. Different things were happening in different parts of Scotland. To try to introduce some consistency to the process and prevent reinventing the wheel, and to become mean and lean and achieve something, the board decided that it would set up a new unit within Scottish Homes to address those issues, but also to take on board some of the learning experiences from 1989 to 1992 when, in some areas, tenants had not been consulted. Various things were learned.

**Mike Watson:** Were the staff in the initiatives unit transferred from other jobs in Scottish Homes?

**Rita Stenhouse:** Yes—in the first instance, the individuals who joined that unit were mainly from different parts of Scottish Homes.

12:45

**Mike Watson:** Might that model have something to offer larger local authorities in particular, if they were to be involved in large-scale stock transfer?

**Rita Stenhouse:** Yes, it certainly would.

**Mike Watson:** Would you advise disengagement from the normal, day-to-day

business of a local authority housing department?

**Rita Stenhouse:** Yes. In fact, we have been sharing that model with several councils and trying to help them understand that conflicts of interest will arise, if they do not exist already, between the roles of buyer and seller. The obvious vested interests must be addressed sooner rather than later, and one of the ways in which to address those interests would be to establish a unit to take on that responsibility on behalf of a council.

**Mike Watson:** I want to touch on one or two other staff issues. In your précis document, which is dated October 1999, you comment on staff. It is interesting that you headed a section on page 3:

"Opportunities for Scottish Homes Staff".

Did you motivate staff within Scottish Homes to drive the process by saying that there would be opportunities for them?

You then go on to say:

"The main beneficiaries have been senior and middle ranking housing management . . . staff".

Did you use that as a carrot to motivate staff?

**Rita Stenhouse:** Staff motivation evolved over time. In 1989, members of staff—I was one—naturally felt vulnerable and threatened. Tenants and staff were reluctant even to think about stock transfers. However, over time, by building on the successes and seeing what could be achieved, gradually staff were motivated to become involved, with tenants, in supporting stock transfers. With regard to the staff who have transferred, I understand that they have shorter working weeks, higher salaries and greater job satisfaction. The turnover of staff who moved to the new organisations is much lower. Therefore, whereas in 1989, housing management staff felt vulnerable and threatened, now they have huge opportunities for career development.

**Mike Watson:** I am tempted to ask why you have not transferred, but that would be unfair.

**Rita Stenhouse:** They cannot afford me.

**Mike Watson:** While these may not be your words, the document goes on to say:

"Relatively few staff employed in other divisions have transferred to the new landlords".

I presume that Scottish Homes has repairs and maintenance staff. What happens to the people who carry out repairs and maintenance on stock owned by Scottish Homes when that stock is transferred?

**Rita Stenhouse:** The repairs and maintenance staff from the area and district offices transfer with the stock. I do not know whether you are aware that Scottish Homes had a building department that was transferred—or sold off—to Mowlem

Construction many years ago. Contracts were assigned for a period and it was then up to the new landlords to tender for the work. I do not know whether you were asking about the DLO-equivalent department or about repairs and maintenance staff.

**Mike Watson:** I was asking about repairs and maintenance staff specifically.

**Rita Stenhouse:** They transfer with the stock.

**Mike Watson:** I did not know about the transfer to Mowlem Construction of the building department—or rather the fact that it was sold off.

Two or three weeks ago, we heard evidence from the construction unions at Glasgow City Council. Those witnesses said that the conditions were significantly worse at Mowlem Construction—the job security is different and companies such as Mowlem often bring in people from outwith Scotland. Did you survey those of your staff who had been transferred to Mowlem?

**Rita Stenhouse:** No.

**Mike Watson:** So you have no knowledge of what was happening.

**Rita Stenhouse:** No.

**Mike Watson:** Were the repair and maintenance staff transferred at the same time as the housing stock was transferred to the housing association?

**Rita Stenhouse:** Yes.

**Cathie Craigie:** I intended to ask about participation and the DLO, but those issues have been covered. It has been pointed out that it is important to involve tenants. They want to know that they have security of tenure and they want to know what improvements will take place and how much rents will be. Rent levels that are set following valuation determine what improvements will take place. The committee has heard evidence that indicates that rents will go sky-high and become unaffordable. I was concerned by the evidence from Berwickshire Housing Association on the way in which it sets rents.

One of the documents—"An Evaluation of Scottish Homes Large Scale Voluntary Transfers"—that Hugh Hall submitted in support of today's evidence contains a section on rent levels. Could you expand on the evidence in that section, especially the last paragraph, which says:

"Where the transfer was to an existing association, rent levels for the transferred houses were generally higher than properties developed using HA G funding"?

**Rita Stenhouse:** Stepping back, I can say truthfully that in the bulk of the 83 transfers, the landlords were able to carry out major works on the properties and to secure effective management and maintenance services. They

have made a commitment that rents will increase by no more than inflation plus 1 per cent. That figure—if that is the figure that was in the proposal—was built into the contract of sale and is the ceiling. There is evidence that some landlords have been able to carry out major works in the early years after the transfer without that 1 per cent increase.

Where major improvement—upgrading rather than catch-up repairs such as replacement windows, doors and kitchens—is required, a one-off rent increase will generally be applied of RPI plus up to 5 per cent.

We have not used a differential rent scheme, which is a model that is used in English stock transfers. From discussion with the Department of the Environment, Transport and the Regions, I am aware that English associations are able to fund upgrading and improvement with huge rent increases in re-let properties.

On rebuild that is partly funded by housing association grant, the financial model for calculation is different from the stock transfer 30-year model. Rent is the most important factor—although I will allow my director of finance to contradict me. The cost of building a property and the amount of remortgage finance that the property can attract are used to work out the level of grant.

**Carole Oatway:** It is a rent-led system.

**Rita Stenhouse:** There are cases in which housing association rents are relatively low.

**Cathie Craigie:** Would it be possible to have a note from you of what the rents on your properties were at the time of the stock transfer and what they are now? We have heard conflicting evidence and we must have the facts. I apologise if the Scottish Parliament information centre is collecting such information, but it would be good to tie that up with the information that we have before the committee.

**Hugh Hall:** We would be happy to do that and to give members an explanatory note on how rent uplifts are determined within the contractual documentation. What Philip Jones and his colleagues from Berwickshire Housing Association described is very much how things operate south of the border, not necessarily how things operate in Scottish Homes transfers, although some of the lenders would like to see the English model imported into the Scottish context.

We will give members a note. I hope that they receive it this time.

**The Convener:** We are well over time, so I will draw the meeting to a close. I thank your organisation for coming to see us for a second time. Your evidence was extremely helpful. We will

pursue the requests for information that have been mentioned.

**Hugh Hall:** Thank you. I would like to extend an invitation to individual committee members to come and speak to any of us or any of the rest of the team at any time. I am conscious that questions have been thrown at us about securitisation, loan debt and so on, which are difficult to cover in the short time that is available. If members want to discuss any issue in more detail, we would be delighted to meet them either in Edinburgh or in Glasgow.

**The Convener:** I am sure that we will take up that offer.

**Rita Stenhouse:** It also might be worth the committee's while hearing from the horse's mouth. It might be worth inviting some of the tenants who are involved in the committees of the community landlords that are on the list that we provided.

**The Convener:** We have undertaken some visits, but we will take up those ideas.

Thank you. I also thank committee members for their forbearance and apologise for overrunning so much. However, as ever, it was worth doing.

12:56

*Meeting continued in private until 13:03.*





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