

SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

Wednesday 15 March 2000
(*Morning*)

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SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

11th 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

Jan Bannister (Sanctuary Scotland Housing Association)

Derek Burns (Sanctuary Scotland Housing Association)

Craig Fulton (DTZ Piedad Consulting)

Kenneth Gibb (Sanctuary Scotland Housing Association)

Rankin Kennedy (Glasgow Citywide Tenants Forum)

Gordon Laurie (Sanctuary Scotland Housing Association)

Robert McDowall (DTZ Piedad Consulting)

George McGuinness (Glasgow Citywide Tenants Forum)

Jean McLeod (Glasgow Citywide Tenants Forum)

Peter Wood (DTZ Piedad Consulting)

CLERK TEAM LEADER

Martin Verity

SENIOR ASSISTANT CLERK

Mary Dinsdale

LOCATION

Committee Room 2

Scottish Parliament

Social Inclusion, Housing and Voluntary Sector Committee

Wednesday 15 March 2000

(Morning)

[THE CONVENER opened the meeting in private at 10:02]

10:18

Meeting continued in public.

Housing Stock Transfer

The Convener (Ms Margaret Curran): I welcome everyone to the meeting.

I move that item 4, which is the review of evidence, be taken in private.

Members indicated agreement.

The Convener: I welcome witnesses from the Glasgow Citywide Tenants Forum. I will give you the opportunity to introduce yourselves and give us a brief introduction—we are always short of time on this committee—then members will ask you questions. Thank you for attending this meeting and for your substantial and helpful submission.

Rankin Kennedy (Glasgow Citywide Tenants Forum): I am from Castlemilk neighbourhood forum. George McGuinness is from the Shettleston and Baillieston forum and Jean McLeod is from Govanhill. We are here as three representatives from the Glasgow Citywide Tenants Forum. We have been elected by our local neighbourhoods to sit on the forum.

We have been led to believe that the policy is about stakeholders and that tenants will be involved in the process from the beginning. The stakeholder issue has not been addressed in our case as we have had no information or representation whatsoever over the past nine months. We are going back to our local neighbourhoods, which are being drip-fed information, or misinformation, from the media and people with vested interests.

The Convener: We will explore those significant issues.

Will you tell the committee more about how your organisation was formed, who is involved and whether you get funding?

Rankin Kennedy: It was formed as a focus

group 18 months ago, after a survey of 2,000 tenants in Glasgow. A focus group was set up to examine a framework document. The group made tenants' concerns about the document known and remitted it back.

We had elections in 31 neighbourhoods to select members of the citywide forum. We are not official spokespersons, but we are elected. We have no brief from any political party or other persuasion. There are 38 members, who have varying views. We have been funded by Glasgow City Council in respect of halls for meetings, transport for disabled members and tea and coffee.

We meet weekly, because we were led to believe that documents would be forthcoming from the steering group. Previously, we met fortnightly. Before that, we met monthly. We meet every Monday, provided we can get suitable premises.

The Convener: You will know that we have taken evidence about the situation in Glasgow. Some of it has been from the Glasgow Campaign Against Housing Stock Transfer and some of it has been from Glasgow City Council.

Do you have any comments on evidence that we have already received? Do you have links with the Glasgow Campaign against Housing Stock Transfer? What are the big issues in housing in Glasgow for tenants? What are tenants' priorities?

George McGuinness (Glasgow Citywide Tenants Forum): We have nothing to do with the anti stock transfer campaign. Most of the committee are neither anti stock transfer nor for it.

The concerns of Glasgow tenants are quite evident. The housing stock is appalling and Glasgow City Council does not seem to have the money to improve it. We have been told that if we opt for this trust, the money will be forthcoming.

The Convener: So the priority is getting work done on the housing stock?

George McGuinness: The priority is to get the work done through getting a framework document, which tenants can study to see what is best for the people of Glasgow.

Robert Brown (Glasgow) (LD): You have perhaps answered this question to some extent. You are obviously giving a lot of time to this mechanism—do you have a view about stock transfer in general?

Rankin Kennedy: George made the position clear. We will have no view on stock transfer until we have seen the framework document.

Robert Brown: Is it fair to say that this transfer is the only game in town, so as tenant representatives you are having to deal with it?

George McGuinness: When you ask elected

members and council officials if there is another game in town, they do not have a plan B. If there is only a plan A, we are here to get the best deal for the householders of Glasgow.

Robert Brown: If the transfer goes ahead with something like the format that you have been told about, do you have any views on the two-tier structure of major purchasing and commissioning, with a second stage transfer, which has been one of the major issues in Glasgow?

Rankin Kennedy: I do not think that there is a situation regarding a second stage transfer.

Robert Brown: Do you have any view on the structure that you would like to see emerge out of this, assuming stock transfer is going to proceed in some form? How would you like it to go?

Rankin Kennedy: I see where you are trying to lead us, but I am afraid that we cannot go into that. We have no views until we see the steering group's framework document and know whether it is about a second stage transfer or setting up x amount of community-based organisations after the first stock transfer.

Robert Brown: May I put a similar point a different way? Are you proposing to judge this matter by any particular criteria? For example, are you looking for particular guarantees, or are there any objectives that you wish to see put in place? What are the essential requirements?

Jean McLeod (Glasgow Citywide Tenants Forum): It would be fair to say that the package that is on offer from Glasgow City Council is unacceptable to tenants. It does not deal with the issues that are at hand. A massive injection of resources is needed to bring the housing stock up to standard. With regard to the transfer proposal, tenant participation is first and foremost. It must be in place to be able to go through the framework that is proposed and to make sure that everything is in place for the tenants.

Robert Brown: The committee has a lot of sympathy with that view, because information is power in this type of situation, but that concerns the process of the transfer. In terms of the result, such as management arrangements or levels of investment, do you have criteria against which you want to judge the transfer?

Jean McLeod: I have been involved with a tenant management co-operative for eight years and I have seen the great benefits of tenant participation. There are currently about 21 TMCs. Some of them have proved to be profitable and have excelled in some of the projects they have taken on. If that was a model for the future, which the Executive has spoken about, along with housing association models on a bigger scale, that would be acceptable, because there would be

tenant participation from an early stage.

Robert Brown: I agree with your view on that. Are there aspects of the way in which Glasgow City Council manages the houses at the moment that you are dissatisfied with? What are your major concerns?

Jean McLeod: Tenant participation has allowed tenants in management to be involved with other agencies, which they would never have had the chance to do otherwise.

Robert Brown: In your paper, you touch on the right to buy, which has implications for stock transfer, and summarise your fears. Do you have more detailed views on that?

Jean McLeod: Yes. The issue was raised on 24 January when the minister attended the citywide forum with a number of other ministers. The forum asked quite a few questions, one of which was on the ownership of properties that the council maintains. I put it to the Minister for Communities that if a proper framework and consultation process were not put in place, the structure that was being looked for and the stock regeneration would not take place.

Robert Brown: So there may or may not be a lot of money going into the transfer, but there are major concerns about how it is managed, how it is spent and what happens locally. To say the least, the information channels have become clogged up.

Mr Lloyd Quinan (West of Scotland) (SNP): Thank you for the information you gave us. Comprehensive is the best way to describe it. In your submission, you refer to a distortion of factual information. Can you give me an example of that? More important, how do you feel the information should have been presented?

10:30

Jean McLeod: The people at the top should have thought things out more clearly before they started to feed information down. Because that has not happened, it has created a vacuum, which has allowed other avenues to be explored—the anti campaign, if you want to put it that way—and resulted in misinformation across the board. As time goes on and you attend public meetings with tenants, you begin to see apathy setting in. That is discouraging to the tenants who are participating. That is why we have come here today.

Mr Quinan: If apathy is arising, do you think that when it comes to the ballot, people will not vote? More important, if the plan goes down the road of tenant management co-ops, do you feel that because tenants have not been involved in the process they will not want to take part in the management of their own communities?

George McGuinness: If people get involved from the start, such as with steering committees, the level of participation will be perpetuated, but at the moment we are sitting doing nothing. We are getting misinformation or, worse still, no information. Some of the information concerns how the debt will be serviced. Ninety-five per cent of the tenants in Glasgow think that the debt will go away the day after there is a yes vote. The Executive and the local authority should say that the debt will be serviced and will not go away.

Rankin Kennedy: Could I add a rider to that? Neighbourhood forums have a problem. They are waiting for moneys to be released from the new housing partnership fund to appoint independent tenant advisers. That would start the process rolling. We would have funding in place to hold public meetings, provide transport for people who cannot get to certain locations, and put the message out that everyone will participate in the process long before a ballot paper is sent out to them. The problem is that we are waiting for the funding to be released. We want the committee to recommend strongly to the steering committee that it should provide the funding immediately.

Mr Quinan: What is your relationship with the steering committee?

Rankin Kennedy: We have none.

George McGuinness: None whatsoever.

Mr Quinan: Have you ever had a meeting with the committee?

Rankin Kennedy: We met once.

Mr Quinan: Was that at your instigation?

Jean McLeod: Bob Allan was invited to the citywide forum to discuss his remit. It was stated that tenant participation should be at that level, but it was decided that the discussion at the steering-group level would be with the financial institutions, and it was thought that we did not have the clout to be involved in that. We were very unhappy about that.

Mr Quinan: So they told you that although you should be involved at that level—

Jean McLeod: They said we would be involved once the steering group had a framework in place. The group would be disbanded and a central board would be instigated, which is when tenant participation would begin. Is that right, Rankin?

Rankin Kennedy: Yes. If I may clarify, when we met the steering group it was at our instigation. We were told that there were difficult problems to resolve vis-à-vis the funding issue, such as negotiations with large financial corporations. Perhaps it would have been better for us to have been privy to them, because in future, if the citizens and tenants of Glasgow accept the

framework document, we will be negotiating with those people.

We have been offered another meeting by the Minister for Communities, Wendy Alexander, which we are grateful for, and we hope that it will take place sooner rather than later.

Mr Quinan: What does “community” mean to you? Do you think that tenants should vote on the stock transfer in a single ballot across Glasgow or in the individual communities, as you would define them?

Rankin Kennedy: The ballot should be citywide. If the partnership—I include communities in that term—is aiming for sustainable communities, it must involve the whole city. What affects Castlemilk affects Govanhill; what affects Govanhill affects the Gorbals; what affects the Gorbals affects Kinning Park; and so on across Glasgow. We must all be together; that is what the partnership, the stakeholder and the whole project is about. All the tenants believe that, not just the three who are representing the citywide forum today.

Mike Watson (Glasgow Cathcart) (Lab): I commend your organisation for the quality of its written submission. That leads into my first question. You said at the start of your evidence that the only funding you receive is for the hire of halls and travel for some of your members. Is nothing else available?

Rankin Kennedy: Nothing.

Mike Watson: Have you requested support from Glasgow City Council?

George McGuinness: We have been told that the money will not be released until a document is on the table. Money has been set aside for the various jobs that we are supposed to—

Mike Watson: But, as I understand it, you have a wider role than just dealing with any housing stock transfer proposals?

Jean McLeod: It would be safe to say that we are in a vacuum. Everything has stopped because there is no proposal or option paper. Once one is in place, we will probably seek funds to involve individuals with the required expertise in financial aspects, consultation, or whatever.

Mike Watson: I asked about your funding because, as you said, there is no voluntary steering group. One of the reasons the Scottish Executive has given—unofficially, I think—for not having such a group is that there is no tenants’ voice. How would we get a representative tenants’ voice on the steering group?

The tenants’ participation advisory service was closed down by the city council a couple of years ago. Is it true to say that there is no tenants’

voice—to speak on behalf of local authority tenants—in Glasgow?

Jean McLeod: The only forum that I am aware of, which is the federation, operates on behalf of tenant management co-operatives. It oversees the TMCs unit.

Mike Watson: But that is just for the co-ops?

Jean McLeod: That is all I know of.

Mike Watson: So the vacuum exists not just on this issue, but in terms of articulating a voice for tenants in Glasgow, and on a wider scale.

Rankin Kennedy: I want to add something on that. The neighbourhood forums that have been set up recently are very representative. The feedback that we give to local managers, which they report back to their area managers, is our way of changing the decisions that are made at a higher level. We have no input to policy at present.

Mike Watson: But those forums are, by definition, neighbourhood forums and there is no joint view that can be articulated for the city as a whole.

I am concerned about the resources that allowed you to produce your submission to the committee. To do that, you must have raised money and found the use of a computer. You must have accessed resources of your own, rather than used existing resources. There was no special assistance.

Rankin Kennedy: I will clarify that. The forum has one independent tenant adviser, who does admin work for us. I believe that the adviser is funded by Glasgow City Council.

Mike Watson: Okay. I was just concerned about the establishment of a level playing field for your participation when the housing stock transfer issue moves forward.

Lloyd Quinan raised a point about community ownership, and your sense of the word “community”. What do you understand by community ownership, as it could apply in Glasgow?

Jean McLeod: It is a major problem. We asked about it at the meeting on 24 January and the Executive agreed that it was a major problem. We also asked about levels of consultation and what framework the Executive intends to put in place to allow the process to advance. I am afraid that I did not get the answer. We were told that when an option paper or consultation document was published, the answer would be in that.

On home ownership, if the stock transfer were to go ahead, I would be worried that the whole financial package for a new landlord would take on board the revenue from rent and from factoring

fees. If we do not have a proper framework, I would be concerned that owner-occupiers who are in a majority would opt out for a private factor. That would deplete the financial status and have an adverse effect in the longer term.

Mike Watson: That could be a downside of community ownership. One of you referred to community buy-outs—would that model be more positive and prevent the problems that you just outlined?

Rankin Kennedy: We cannot make a final comment on that at this stage. We are of the opinion that the stock transfer process could go on over two years and that once the independent tenant advisers come on board we will be able to take in information from all the groups that have made a success of community partnerships in housing areas.

Mike Watson: I was talking in general terms; my question did not necessarily relate to the housing stock transfer. What do you think of Glasgow City Council's current vision of community ownership?

Jean McLeod: I think that everybody is entitled to aspire to own their house, if that is what they want. The main problem arises when they live in an area where there is a large majority of home ownership. That is the case in the area where I live—Merrylee in Cathcart—and it is why I was anxious about community ownership. If we use the TMC model, I can see problems arising because we would have to put major projects in place—at the moment, home owners would be responsible for such projects—and perhaps grants would not be available. That is one of the reasons why we are asking the Executive what framework or structure it will put in place. We are talking about people from all walks of life: they may be living on the breadline, or they may be able to afford their mortgage but could not handle the neighbourhood plans that the Government wants to talk about.

Regarding the repairs that are listed in the neighbourhood plans, I pointed out to Mr McAveety that from years 1 to 6, six out of seven repairs are to common areas and that from years 7 to 10, six out of eight are to common areas. Without a structure, common areas repairs will be decimated—rather than the regeneration that the Government talks about. People will not take the plans on board if there is nothing in it for them.

Mike Watson: I do not know whether your organisation has done any surveys on whether tenants are willing to wait for repairs to be carried out if the programme of repairs could be delivered by some more local mechanism—some form of community ownership.

Jean McLeod: No, they are not. Tenants are paying their rent and there is no extra money—no budget—from Glasgow City Council. The council

is doing repair and maintenance, not major projects.

The original remit of the TMCs has changed dramatically regarding the repairs procedure. There is no longer cyclical maintenance because the money is not available; the budget is used to do day-to-day maintenance. That is probably true across the city, regardless of whether a TMC is involved.

Mike Watson: So there are no reserves?

Jean McLeod: There are no reserves, so nothing is getting done. A lot of work is being suspended.

Mike Watson: You also mentioned rents, and I wanted to ask about that. We heard evidence from the leader of Glasgow City Council and from its director of housing. You may have read that evidence. They were questioned in some detail about the possibility of rents rising in advance of a housing stock transfer. Figures were being bandied about, and the new figure for the rent increase has now been set. Would the tenants to whom you have spoken accept that rent rises should contain an element that might be put aside to finance repairs? Would they be willing to pay slightly higher rents over a period of time if that money were to be earmarked for repairs?

10:45

George McGuinness: If it could be used to get the houses up to standard, the tenants would favour a rise in rents. At the moment, tenants are paying out of their own pockets to keep their houses windproof and watertight. There is no money available, and tenants are doing maintenance that Glasgow City Council should be doing. I do not think that dedicating a proportion of increased rents to repairs would be a problem, provided that rises were within reason, of course.

Rankin Kennedy: In most new housing partnership areas, rents are set at the rate of inflation plus 1 per cent. It is made quite clear that the extra moneys will be put by for further improvement. I have not heard of any organisation or tenants' group refusing such an arrangement in discussions with landlords.

The Convener: Your submission stated that you had been to Berwickshire.

Rankin Kennedy: I did not go there myself.

The Convener: I was just leading in to a more general question. What do you think that Glasgow City Council can learn from the way in which housing associations have developed and properties have been improved?

George McGuinness: We cannot comment further until we have seen the proposals, but I

think that we are all open-minded enough to be able to learn from one another.

The Convener: Given the experience of Glasgow City Council tenants, I understand your hesitation and unwillingness to comment until you have seen what is on the table. However, I would like to push you a wee bit to get a few answers. There must obviously be change in Glasgow because of housing standards. What recommendations for change would you make to housing management in Glasgow? Is investment what the city needs?

George McGuinness: Investment is a major part of the solution. We and our neighbours want to participate in the process. It is such a big issue that we cannot afford to get it wrong. There are 96,000 people in Glasgow City Council accommodation and there have been 38 years of mismanagement. This is the last shot that we will have at getting social housing in Glasgow right. If we do not get it right this time, in 30 or 40 years' time, our grandchildren will be sitting round this table again. We are asking for time. We do not want time scales; we want time to sit down and consider this properly. We want to participate right from the beginning of the process, not when it has been done and dusted.

The Convener: What misinformation are you particularly concerned about? Glasgow members on the committee know quite a lot about the scare stories that are circulating. What are you worried about?

Rankin Kennedy: Demolition. Information has been circulated to people living in areas that need to be demolished. Unfortunately, the information that they are getting is that they will be relocated. It is as if some sort of social cleansing is going to happen in the area. In my area, 300 people have recently moved out of an area that is designated for demolition, and every one of those people has been rehoused within their own area. The good thing about that example is that not one of those people asked to be rehoused outside Castlemilk. Usually, there is a waiting list of people who want to move to Mansewood, Cathcart or Govanhill, or even to the east end.

The Convener: Even? *[Laughter.]*

Rankin Kennedy: None of those people told the housing manager that they wanted to move out of Castlemilk. Perhaps there is a sea change. People are beginning to believe that the Executive has a policy for community regeneration, inclusion and wealth creation within their area. If the committee can take that message back to the Executive and make recommendations, the people out there would be most grateful, because that is what the city of Glasgow needs.

The Convener: I was taken with your urgent

request that we pursue the steering group and the minister to meet you very soon. We should agree to write to the Executive on your behalf.

Rankin Kennedy: Thank you very much, convener.

The Convener: There has been a lot of discussion about housing in Glasgow and there are a lot of stories about it. Do you think that there is a possibility that things will start to get better?

Rankin Kennedy: I think that there is more than a possibility.

Jean McLeod: The tenants are not willing to back down now. The ball is rolling and they will keep hammering away at it.

The Convener: We would like to assist you if we can. If there is more information, more involvement and more participation, do you think that there are prospects for a better future for Scottish housing?

Jean McLeod: The situation cannot stay as it is now. It must move and change for the better. If the tenants can make it better, all the better for them. There must be participation from day one.

Rankin Kennedy: I would like to add a rider there. There are 31 neighbourhood forums in Glasgow. People turn up to meetings month in, month out hoping that they can affect their communities. If the belief is with them, I do not see why it should not also be with the Executive and the steering group.

The Convener: Thank you very much for your evidence. We shall consider what you have said and we will try to do whatever we can. The minister will be coming to our meeting in a couple of weeks' time, so we shall ask questions then about the matters that we have discussed today.

I warmly welcome our next witnesses. I shall allow them to introduce themselves briefly, before allowing committee members to ask questions.

Derek Burns (Sanctuary Scotland Housing Association): Good morning. On behalf of Sanctuary Scotland, I thank you for this opportunity to contribute to the dialogue on social inclusion and housing within the voluntary sector. I am the chairman of Sanctuary Scotland and I am accompanied today by Jan Bannister and Ken Gibb from our voluntary committee, and by the director of Sanctuary Scotland, Gordon Laurie.

We have provided a written submission and are happy to discuss its contents. There are a couple of key elements of the submission that I would like to highlight. Sanctuary Scotland is a full member of the Scottish housing scene, having sought and been accepted for registration with Scottish Homes. In the specific area of transfer of housing stock, Sanctuary Scotland has been involved in

Glasgow south, where we are now managing around 280 dwellings, and in Ardler in Dundee, where the master plan involves a transfer of more than 1,600 dwellings as part of a regeneration project.

Bill Aitken (Glasgow) (Con): Thank you for your submission, which was most useful.

We are concerned that there should be a maximisation of tenant participation in stock transfers. I note that you do not have more than 25 per cent of tenants on the management committees. May I probe your thinking on that?

Gordon Laurie (Sanctuary Scotland Housing Association): As part of our registration discussions with Scottish Homes, a requirement was built into our rules that a minimum of 25 per cent of our management committee members at the time of registration should be tenants of the organisation. That gave us a strong, pre-registration dilemma, when we had no tenants prior to the stock transfer in Glasgow south, as Scottish Homes insisted on that level of representation on the management committee. Eventually, the date of registration and the date of stock transfer became coterminous and we have now achieved that minimum of 25 per cent.

Bill Aitken: That is pleasing.

Would you say that those tenants have more powers now than when your organisation started in Scotland?

Gordon Laurie: Yes, definitely. Our tenants were previously tenants of Scottish Homes and we worked closely with them as part of the stock transfer, negotiations with tenants and tenant information processes. We have been able to sustain tenants' interest and involvement beyond the stock transfer and to bring them into the management of the organisation in a wider sense. However, we also have other structures in place that allow a wider range of tenants to be involved in local issues.

Bill Aitken: We have some evidence, which may or may not be apocryphal, that, when English-based associations such as Sanctuary Housing Association move into Scotland, they tend to apply a more centralised structure than an indigenous Scottish association would apply. Is that the case?

Gordon Laurie: Speaking as a paid employee of the organisation, I would say that that is clearly not the case. Our structure is certainly different from other organisations—a characteristic of the housing association movement is that there are many structures within the movement. The fact that we exist separately, as Sanctuary Scotland, allows us opportunities not only to develop processes that are appropriate to Scotland, but to

develop different processes and opportunities that are appropriate for tenants in the different areas of Scotland in which we operate.

Bill Aitken: Sanctuary Scotland is now a fairly significant player on the housing association scene. Do you think that the size and the development legacy of Sanctuary Scotland allow you to borrow money more cheaply?

Jan Bannister (Sanctuary Scotland Housing Association): Yes. The fact that we are a subsidiary of Sanctuary Housing Association meant that we were able to access European Investment Bank resources for the Ardler project.

Bill Aitken: Could you tell us at what rates you borrow as compared to the market rate for a project such as Ardler?

Jan Bannister: That is a slightly sensitive question.

Bill Aitken: I understand that, but what is the differential?

Jan Bannister: We borrow at about 1.5 per cent below the market rate.

Bill Aitken: My next question may also be sensitive; if so, please decline to answer it. What is the level of your present reserves?

Jan Bannister: I think that Sanctuary Housing Association will publish that information in its accounts. I have seen the end-of-year accounts in draft only, as it is not yet the end of the financial year, but I believe that the reserves will be in excess of £10 million.

Bill Aitken: What is the spread of the reserves between Scotland and England?

Jan Bannister: At considerably less than £1 million, the reserves for Scotland are quite small.

Bill Aitken: Are the reserves interchangeable?

Jan Bannister: No. Sanctuary Scotland has its own separate accounts, as required by the registration regulations of Scottish Homes. Indeed, we want our own accounts not just to measure performance standards but, as a Scottish association, because we need to see how we are doing. After all, we are the management committee of a Scottish association. However, our accounts go into the group's accounts.

Bill Aitken: What use do you make of the reserves? Do you use them to influence the increase in rent levels or for general development?

Jan Bannister: Because Sanctuary Housing Association is so large and has so many borrowings, we have specific covenants and we keep a certain level of reserves in order to honour those covenants.

Some covenants are aligned to England, but that is not relevant here. Moneys were put into reserves, as required by the Housing Corporation. The Housing Corporation has not asked Sanctuary Housing Association to use those reserves, but every housing association in England had to have such reserves, which are now being used to catch up with major reserves. The association is not about to use those reserves in Scotland, as they do not apply here.

11:00

Bill Aitken: How do you envisage financing home improvements?

Jan Bannister: Home improvements are financed by borrowing money from rent incomes, and future improvements are financed by transfers from reserves. Therefore, we build up sufficient reserves, based on lifetime costings, as all housing associations do, so that we will have sufficient money to keep up with both reactive repairs and the cyclical repairs that must be carried out, based on the 30 or 40-year life of our properties.

Cathie Craigie (Cumbernauld and Kilsyth (Lab): I am interested in tenant and community involvement. How was the community involved in the lead-up to transfer? What choices did the community have to make? What was the policy in relation to tenant and community involvement?

Derek Burns: Which stock transfer are you most interested in?

Cathie Craigie: I am interested in both.

Derek Burns: In Glasgow south, tenants were very much involved through their independent adviser, who called meetings so that we could meet the tenants. Tenants in Glasgow south could choose either to go with us or to stay with Scottish Homes. Therefore, we debated with Scottish Homes to see which outcome the tenants preferred. Those conversations went on for quite a long time, because a lot of knowledge was transferred between both sides. We got involved with the residents and tenants committee, and some people came forward from that committee to join our main committee.

I think I am right to say that, in Ardler, there was a choice of four participants in the stock transfer. The Ardler tenants group was involved, along with the local council and Scottish Homes, in examining the four proposals, because, as it was a regeneration project, many issues required consideration. They had to consider how to regenerate the housing and also the fact that the whole village of Ardler, as it has come to be known, was to be regenerated. The responsibility for deciding which proposal to accept lay very

much with the community, as the community led that initiative.

Cathie Craigie: Have you had difficulty engaging the community in Ardler? Have members of the community been willing to involve themselves? When it came to the ballot, what percentage of the tenants took part and how did the vote split?

Derek Burns: I will answer the last question first, because we have not yet had a ballot. The ballot is scheduled for this year, unless there are any further delays.

We could not say that we had to drag tenants kicking and screaming to get involved: they were the people who led this initiative. It was they who wanted the Ardler area to be regenerated; it was they who went to see not only local councillors but MPs and now MSPs. The community drove the initiative forward.

Cathie Craigie: Do you think that that community will be happy when you say, as you do in your submission, that a minimum of only 25 per cent of the board would be made up of tenants? From experience elsewhere, how would you react if tenants in the community wanted to have representation that was greater than 25 per cent?

Derek Burns: We have suggested to local communities that a lot of decision making will be transferred to the local village trust—I use that name loosely, because I do not think that a title has yet been chosen. We have involved communities in decisions on issues such as what their rent levels will be, and that has been agreed with them. Other policies have been put in place that affect their environment, policies that were beyond what we would have had as a minimum in other areas in which we are involved. The communities are happy with that, and we would welcome it if more people wanted to be involved on the committee.

As an aside, I would like to say that in Glasgow south, where 25 per cent of our tenants are on the committee, we also have two other tenants on the committee who are from other local authorities or housing associations. We wanted to have their knowledge on the committee even as we started off.

Cathie Craigie: What can Sanctuary Scotland offer in terms of community empowerment? Would you describe it as community ownership?

Gordon Laurie: Ownership in the sense of the community collectively owning the properties is not possible within our structure where the properties would be owned by Sanctuary Scotland. As far as community empowerment goes, in pursuit of best value, we have a range of policies on tenant and customer involvement, and we have customer

panels. As Derek Burns explained, our framework allows for substantial delegated authority to a local committee, board or trust in Ardler.

We feel that we can offer a range of solutions to tenants and communities that will allow them to become involved in the management of their communities to the extent to which they wish to be involved. That need not necessarily imply ownership. From an earlier very eloquent witness, we heard about the difference that even a tenant-management co-operative can make to the management of houses, where ownership still rests with a landlord but where the community is actively involved in agreeing local policies and local priorities, in setting local standards for service and in ensuring that those are implemented. We think that we can offer that.

Speaking as the official, I would say that the management committee and the voluntary members have been supportive of that approach and are willing to arrive at frameworks that allow communities to be involved, to have influence and to take ownership. That is fundamental to creating sustainable communities. As Derek said, one of the big attractions in Ardler was the strength of community involvement. That is very significant in Ardler and we do not want to lose it. In the longer term, it will help us to achieve a quality and sustainable environment for residents of the community.

Fiona Hyslop (Lothians) (SNP): Thank you for the evidence that you have given. I would like to ask about your experience of debt with your stock. What is the outstanding debt per house, and how much of your rental income stream is used to pay off that debt?

Gordon Laurie: I cannot give you exact figures off the top of my head. The stock that we have in Glasgow south was transferred about 18 months ago, in August 1998. The purchase price that we paid to Scottish Homes—funded by borrowing—was about £14,000 per unit, if memory serves. Since then, we have invested on average a further £3,000 per unit to replace all the old windows with new double-glazed windows and to offer tenants an improvement of their choice up to the value of £1,000. The total debt will therefore be of the order of £16,000 or £17,000 per unit at the end of this year. It would be foolish of me to have a stab at suggesting the percentage of rent that goes on servicing debt; but I would be happy to provide that information later.

Fiona Hyslop: We are considering this issue in the round, and we are interested in the rent situation. We want to know the experience of organisations such as yours, so that we can compare the percentage of your rent that goes to pay off debt with the percentage in different councils or authorities.

Gordon Laurie: We have a rental structure that was inherited from Scottish Homes 18 months ago. We are able to finance the debt, and to finance a 10-year or a 15-year programme of improvements and major repairs involving both reactive repairs and cyclical repairs, by rent increases that are within retail prices index plus one.

Jan Bannister: I may have slightly misled you before. I said that we had access to cheaper borrowing through Sanctuary Housing Association, but the borrowing for the Glasgow south transfer was entirely down to Sanctuary Scotland. We borrowed money locally.

Fiona Hyslop: You say that, in Ardler, you negotiated with tenants a guarantee that maximum rent increases over the next 15 years would be based on retail prices index plus one. How can you guarantee that for 15 years?

Derek Burns: We have costed and modelled it over 15 years. Having considered the experience of our parent organisation, which has been in place for many years, we believe that the guarantee is tenable.

Fiona Hyslop: What happens to rent will be an issue in Glasgow and other areas. We have heard about possible five-year guarantees, which may roll on, although we do not know that. If a democratically elected council broke a guarantee, it could be voted out of office. You talk about a 15-year guarantee. What happens if you renege on that? What powers will tenants have?

Gordon Laurie: The guarantee is built into every tenancy agreement. It forms part of a contract between the association and its tenants, as is the case in all large-scale voluntary transfers.

Fiona Hyslop: What would happen if you broke that contract?

Gordon Laurie: I presume that that guarantee will also be built into the stock transfer contract under the terms of which Dundee City Council will transfer the stock to us. I am not sure what they may be, but there will clearly be sanctions available to the council if we breach the terms on which it transferred the housing stock to us.

Fiona Hyslop: If I were a tenant in Ardler, I would think that a 15-year guarantee looked attractive, but I would wonder about what would happen if that guarantee were not fulfilled. It is possible to see what would happen with a democratically elected council; but it is not possible to see what powers tenants could have and what could happen after stock had been transferred. Although there is a contract, it sounds as if there may be no penalties for breaking it. What protection do tenants have?

Jan Bannister: I suspect that tenants would

have recourse to actions such as not paying their rent or taking us to court. Such a situation would certainly be picked up by Scottish Homes—assuming that it is still the regulator 15 years down the line—because we would have failed to achieve one of our major performance standards. I suppose it is possible that, if we could afford to, we could borrow more money. If not, Scottish Homes may consider a transfer of undertakings to somebody who could afford to carry out the work.

That was all off the top of my head, but I think that there has to be recourse for tenants. Our view is that we have a contractually binding arrangement. That is certainly true with the tenants of Glasgow south, and we hope that it will be true with the tenants in Ardler. We will do our damndest to ensure that we abide by our commitments.

Kenneth Gibb (Sanctuary Scotland Housing Association): It is worth saying that those rent guarantees are based on quite complex risk assessments that are produced by my organisation's head office in England. I understand that, in similar stock transfers, rent guarantees have mostly been maintained.

Fiona Hyslop: Scottish Homes has been strict about warranties because it wants to protect the public purse from risk. Obviously, however, there must be a risk somewhere. In England or in Scotland, have you identified any difficulties in the way in which warranties work?

11:15

Jan Bannister: I have been on the Sanctuary council for a couple of years. To my knowledge, that issue has not come up. I have no knowledge of it.

Fiona Hyslop: Have the lenders asked you about the Ardler estate in particular and what warranties might be given?

Jan Bannister: There are specific covenants attached to the European Investment Bank loan and we have to abide by stringent conditions. That loan makes up only a small part of the borrowing that we will have to do for the Ardler estate, but the fundamental qualifying condition for the loan is that it has to be part of a regeneration programme. There are some fairly onerous conditions attached and the bank will visit the estate. I am not aware, however, that the bank has asked for anything specific.

We applied to the bank for loans relating to estates in England as well as the Ardler estate and the bank needed to know Sanctuary's financial strength. I suspect that it looked at our covenants as part of that.

Fiona Hyslop: My point is that lenders are

interested in the warranties that they would have on the properties that they would be financing. Obviously, the rates that they charge would increase if the warranties were not satisfactory. That would have an impact on rents and, as we have heard, the only guarantees that the tenants would have would be through a rent strike or the takeover of your organisation by another body.

I am interested in what you were saying about the European Investment Bank. Regeneration of communities should be a vital part of our work. The committee visited Queens Cross Housing Association in Glasgow, which also wants to access European financing to help with regeneration. It might be more difficult to secure European finance in Scotland than in England because of greater prescription about accessing European Investment Bank money. Would you like to comment on that?

Jan Bannister: I agree with you entirely. The finance people at Sanctuary advised us that we would probably not be able to access European Investment Bank funding. However, our organisation is a subsidiary of Sanctuary Housing Association, which convinced the European Investment Bank that the Ardler project was a pukka, bona fide regeneration project. On that basis—largely because we are a subsidiary of Sanctuary Housing Association—the bank was prepared to consider the application.

I hope that the bank will visit the Ardler project and see that there is great scope for the funding of further regeneration projects. That is not part of my remit, but I think that it would be terrific for Scotland. It would be great if this committee could sort something out in that regard.

Fiona Hyslop: We certainly do not want Scotland to miss out on European Investment Bank funding. It is the responsibility of this committee to pursue that matter.

Mr John McAllion (Dundee East) (Lab): You mentioned that your parent organisation's reserves were in excess of £10 million. However, both £11 million and £11 billion are in excess of £10 million. How far in excess of £10 million are the reserves?

Jan Bannister: The reserves are not much in excess of £10 million.

Mr McAllion: What does that mean?

Jan Bannister: A couple of million or so.

Mr McAllion: Okay, £12 million. Can any of that be applied in Scotland?

Jan Bannister: Only the part that relates to Sanctuary Scotland.

Mr McAllion: The rent guarantee of RPI plus 1 per cent for 15 years applies only to transferring

tenants. Any new tenants who were to move into the new build in Ardler would have a differential rent system. Is that correct?

Gordon Laurie: Technically, you are correct. However, our model is worked out on the basis that RPI plus 1 per cent for 15 years will apply throughout the estate. There are negotiations with existing tenants.

Mr McAllion: Bette Girvan, a home owner who is active in Ardler, has written to the committee to say that you told her that lenders were insisting that no guarantee be given to new tenants who were moving into the new-build houses.

Gordon Laurie: It is not a question of lenders insisting on anything; we feel that, in any financial equation, there must be some comfort for lenders. In the negotiation process, our initial suggestion was for RPI plus 1 per cent for 10 years. The residents in Ardler wanted to negotiate a better guarantee than that. We talked to investors, who said that RPI plus 1 per cent for 15 years was acceptable. Being cautious, however, the lenders suggested that it might be prudent to apply that guarantee only to transferring tenants. As far as we know, we have negotiated the longest guarantee that has been offered in any stock transfer situation.

Mr McAllion: But there has been no guarantee for any new tenants who move in.

Gordon Laurie: There is a clear statement of intent, but no guarantee.

Mr McAllion: In your submission, you talk about the demolition of 1,630 properties—the two remaining multi-storey buildings and all the four-storey buildings. How many tenants currently occupy those properties?

Gordon Laurie: At the end of December, there were 1,100 tenants and more than 500 voids. As part of the build-up to the regeneration process, the council has not been letting properties in Ardler for the past couple of years. The remodelling seeks to replace a dense collection of multi-storey blocks and four-storey blocks with lower-density, back-and-front-door housing. That means that there will not be room to rehouse the original 1,600 tenants.

Mr McAllion: What will happen to the tenants in the time between demolition and rebuild?

Gordon Laurie: If the tenants vote for a stock transfer, the majority of Ardler's tenants will move directly to a new-build house or cottage flat built by Sanctuary Scotland. We have started building the first 90 houses in the open spaces on the estate. We will move tenants into those houses and demolish the buildings that they have moved out of before building more new houses.

The Executive has placed a constraint on us by insisting that all the new housing partnership funds be spent by March 2002. To achieve that spend, we will have to rehouse up to 150 tenants for between six months and a year. That is purely because we have had to accelerate the build programme to achieve the spend target that has been placed on us—

Mr McAllion: Let us be clear. There are 1,100 existing tenants. You are building 786 new, low-rise properties. How do you put 1,100 into 786?

Gordon Laurie: The number of tenancies is down by another 33 since the end of December. The decline rate of tenancies is significant—more than 230 tenancies were terminated on the Ardler estate last year. That rate is continuing.

We are building 786 new properties and retaining 73 and there are a couple of more recent, low-rise developments on the fringes of the estate, which we will retain. The target number of rented properties available in Ardler is 859. Because the development programme lasts for five to six years, to achieve that figure we have assumed a fairly pessimistic tenancy termination and turnover rate. If tenancy terminations continue at their current rate, we will be down to about 900 tenants, unless, by the time of the stock transfer—

Mr McAllion: How many tenanted properties will you transfer at the time of the stock transfer—1,100?

Gordon Laurie: I expect that it will be well below 1,000 at the time of the stock transfer.

Mr McAllion: The assumption is that people currently living in Ardler will not benefit from any investment in Ardler because they will have moved out by that stage.

Gordon Laurie: They will make a choice to move out, or they will—

Mr McAllion: Who will be balloted, the existing tenants or just the tenants who are there at the point of transfer?

Gordon Laurie: It will be tenants who hold a secure tenancy at the date of the ballot.

Mr McAllion: Would you expect that to be considerably less than the number of tenants currently living in Ardler?

Gordon Laurie: Yes.

Mr McAllion: Even then, you cannot guarantee them all a new house, because their number could be in excess of the number of new houses you have available.

Gordon Laurie: That is correct—we have made assumptions about tenancy turnover.

Mr McAllion: So there is no guarantee that any

of them will get a new house if they stay in Ardler.

Gordon Laurie: There is a guarantee that 786 people will—

Mr McAllion: Above that figure, people will not get a new house, even if they stay and vote.

Gordon Laurie: Our assumptions are very cautious.

Mr McAllion: As you know, Bette Girvan, who wrote to the committee, is a home owner. How many home owners are there on the Ardler estate?

Gordon Laurie: About 70.

Mr McAllion: What will happen to them?

Gordon Laurie: They will be offered a purchase price for their property. It is likely that that will be done via the council.

Mr McAllion: Originally, there was a plan to refurbish about 200 houses. Did that apply to the home owners?

Gordon Laurie: It applied to three blocks, in which there were some home owners.

Mr McAllion: Is it true that the cost of the refurbishment, which the home owners would have to contribute towards, was so excessive that many of them indicated that they could not possibly afford a contribution?

Gordon Laurie: Yes, that is likely.

Mr McAllion: Is that one of the reasons why you have dropped the refurbishment proposal?

Gordon Laurie: No. We dropped it as part of the intensive and on-going community consultation that we have been carrying out over the past 18 months. The vast majority of residents in those blocks came to us and said, "It's not fair that everybody is getting a brand new house out of this deal, and your proposal is that we should keep the same old flats but our block should be tarted up." With the tenants' independent adviser, we carried out extensive surveys of the tenants and owners in those three blocks. The vast majority voted in favour of demolition and new build instead of refurbishment.

Mr McAllion: So when it comes to demolition, the 70 owners will be offered a price. What happens if they do not accept that price?

Gordon Laurie: The council may have to exercise compulsory purchase powers.

Mr McAllion: So the answer would be compulsory purchase and eviction.

Gordon Laurie: We have to be clear—it is the council that has promoted the regeneration of Ardler.

Mr McAllion: Originally, you were speaking about 450 houses for private sale, including low-cost home ownership. That figure has been changed to just 400. Will that include low-cost home ownership?

Gordon Laurie: Yes—114 low-cost home ownership properties funded by grants for rent and ownership.

Mr McAllion: You say that you will establish a committee on the Ardler estate that will have substantial powers devolved to it. Is that committee the same as the management committee for Sanctuary Scotland?

Gordon Laurie: No.

Mr McAllion: Is it the same as the village trust that is proposed by Dundee City Council?

Gordon Laurie: No.

Mr McAllion: It is a separate committee.

Gordon Laurie: Yes.

Mr McAllion: Will you give us some idea of the kind of powers that will be devolved to the committee by Sanctuary Scotland and what will be reserved to Sanctuary Scotland?

11:30

Gordon Laurie: We have made a proposal to which the community has still to respond formally. The powers that we have proposed should be devolved to the local committee are as follows: to approve the regeneration, development and improvement proposals; to oversee the rehousing programme; to appoint consultants; to agree issues of design specification; to make recommendations to Sanctuary Scotland's management committee on an annual budget for the Ardler estate; to make recommendations on rent levels and service charge levels; to agree a local letting strategy; to agree targets for voids and rent arrears and to receive reports on the implementation of them all; to recommend variations to Sanctuary Scotland policies and procedures in light of local circumstances; to promote the involvement of tenants and owners on Ardler in the management of the estate; to agree standards for estate caretaking and local services; to agree targets for maintenance response times; and to monitor maintenance expenditure against budgets. In other words, we are in effect proposing substantial delegation of the local management of the Ardler estate to a local committee.

Mr McAllion: So that committee can make recommendations and so on, but decisions will be taken by the management committee of Sanctuary Scotland. Where is that located?

Gordon Laurie: It meets on the circuit—

Mr McAllion: Where are the headquarters?

Gordon Laurie: Our headquarters are in Glasgow.

Mr McAllion: So ultimately decision-making power over budgets and rents will be in Glasgow, not in Dundee.

Derek Burns: As our only houses at the moment are in Glasgow, it seems appropriate that the committee should meet there.

Mr McAllion: All I am saying is that the decision-making powers remain with the headquarters group, not with the local management committee in Ardler.

Derek Burns: You seem to be asking two questions. People from Ardler have been invited to our next management committee meeting to observe and to decide whether they wish to be involved. The organisation of those committee meetings will oscillate between Dundee and Glasgow. That will give any member of the community in Dundee regular access to committee members.

Mr McAllion: But let us be clear that the decision-making power remains with the management committee.

Derek Burns: Yes, and it is based where the management committee feels that it is appropriate; at the moment, that is Glasgow. However, we will move to Dundee because there will be more tenants in Dundee in future.

Gordon Laurie: We are proposing that the terms of reference for the local committee should be built into a formal recognition agreement with the local community. That agreement would stipulate the terms on which the management committee could pull rank on a local committee. That would include issues such as statutory or regulatory compliance, financial risk, non-compliance with core values such as equal opportunities—

Mr McAllion: What would be the make-up of the local committee that is being proposed for Dundee? Will it be just tenants, or will the 25 per cent rule apply?

Gordon Laurie: What we have proposed—we have put the proposal through the Ardler steering group and the independent adviser—is that the local committee should comprise between seven and 12 members, a maximum of three of whom should be members of Sanctuary Scotland's management committee, so that there is always an in-built minority of those members. Tenants of the Ardler estate should have up to 10 places and it is possible that there will be two places for owners in the Ardler estate who are receiving services from us. The terms of reference are

structured in such a way that the members of Sanctuary Scotland's management committee would not form a majority on the local committee.

Mr McAllion: Does Sanctuary Scotland recognise trade unions?

Gordon Laurie: Not at the moment.

Mr McAllion: In England?

Gordon Laurie: Not formally.

Mr McAllion: Is it housing association policy not to recognise trade unions?

Jan Bannister: I do not know whether the issue has arisen. There is a staff consultative council, which, as I understand it, operates quite effectively. To be fair, I am not aware that the issue has ever come up.

Mr McAllion: It comes up in other housing bodies in Scotland—local authorities, housing associations and Scottish Homes have all recognised trade unions. Why does not Sanctuary Scotland?

Gordon Laurie: I am meeting the local trade union officials in Dundee a week on Friday to discuss that issue.

Mr McAllion: It is always a pleasurable experience meeting trade union officials.

Gordon Laurie: I feel an illness coming on a week on Friday, convener.

Mr McAllion: You said that you have been involved in employment creation initiatives. What specific involvement have you had in employment creation in Ardler?

Gordon Laurie: A separate employment and training sub-group has been established which includes representatives from local colleges, the construction industry, the training board, major employers on the building contract, the careers service and some of the local neighbourhood groups. That sub-group is working to establish a mechanism for residents in Ardler to have priority for jobs specifically within the construction industry that will arise from this project, including apprenticeships. Although our main partner in the construction is Wimpey Homes, which is a national company, it is using Dundee-based contractors to carry out the work. We have made substantial progress in putting in place a framework that will allow job creation and employment opportunities both for the people of Ardler and for the wider Dundee area.

Mr McAllion: You have a lot of problems in this area. For example, promises were made to employ local people for the construction of the big Overgate complex and the new waste energy plant in Dundee. However, the construction was

undertaken by workers from outside Dundee who worked seven days a week, 12 hours a day. We will be examining your project to find out how that area is developing. Given the amount of construction in progress, do you think that there might not be enough skilled people to complete the project on time?

Gordon Laurie: That is a pertinent issue for the construction industry generally. We think that there will be a peak in construction activity in Ardler two or three years down the line, when four or five building contracts are in progress at the one time. One of the advantages of having Wimpey Homes as the main contractor for the whole project is that different employers will not be vying for a scarce commodity such as good-quality labour. At the moment, although we do not expect that the issue will impact on our ability to deliver the project, our advisers and consultants have been paying attention to the problem.

Mr McAllion: My time is up for the moment.

The Convener: I am sure that John has one or two other issues that he will want to pursue with you.

Mike Watson: The figure of 25 per cent was mentioned for tenant involvement on management committees. Mr Laurie, you said that there could not be a majority of tenants on committees. However, is there an upper limit, perhaps of 49 per cent?

Gordon Laurie: No.

Mike Watson: I was just wondering why you have stipulated a level of 25 per cent.

Kenneth Gibb: That figure originated with Scottish Homes. It was never our intention to have a minimum level.

Mike Watson: That is fine. As I am short of time, I will leave the matter at that.

Further to that question, 25 per cent of your management committee is made up of tenants. Am I right in saying that you are not tenants?

Derek Burns: On the voluntary management committee, there are four people—

Mike Watson: I am just wondering why a tenant representative from the management committee did not attend the meeting to answer our questions.

Derek Burns: The committee decided who should attend the meeting.

Gordon Laurie: And that also depended on who was available.

Mike Watson: That is unfortunate.

I have one final point which impacts directly on

the Glasgow experience. Is there any Dundee City Council tenant involvement in the Ardler steering group, bearing in mind the fact that there is no council tenant involvement in the steering group for the Glasgow housing stock transfer?

Gordon Laurie: The Ardler steering group is entirely different as it comprises nothing but residents of the area. The majority are tenants, but the group also includes long-standing home owners and some of the people to whom Mr McAllion referred.

The Convener: Thank you very much; you did well with the questioning. I am sure that we will pursue the trade union issue with you at some point.

I want to move swiftly on and put on the record the fact that the committee's adviser has declared an interest. For one day a week, she has a secondment to a group that competes with DTZ Pieda Consulting.

I welcome the next set of witnesses and ask them for a brief introductory statement.

Peter Wood (DTZ Pieda Consulting): DTZ Pieda Consulting is a company of professional advisers, who are currently working with about a dozen local authorities in Scotland on issues related to option appraisals concerning the future of their stock and the possibility of stock transfer. That has given us a certain insight into the stock transfer process and, at the committee's request, we have appeared here today to assist your inquiry.

In conducting option-appraisal work for local authorities, we help them to make decisions about the future of their stock. We examine authorities' objectives and how they can meet them and we provide advice on the valuation of the stock and on the financial implications of other courses of action. My two colleagues with me have specific expertise in those areas. I hope that Craig Fulton, on my immediate left, will not blush too much if I say that he has carried out more valuations of social housing stock in Scotland than any other person. Robert McDowall, who joined us about a year ago from the Royal Bank of Scotland, has a background in the financing of social housing, particularly the introduction of private finance into social housing.

Although I imagine that the committee's interest in us is mainly related to our current work on stock transfers, our company carries out a wider range of housing research for public bodies and we have undertaken research on the effects of large-scale voluntary transfers in England.

The Convener: You have very valuable experience on which the committee can draw.

Alex Neil (Central Scotland) (SNP): The main

purpose of this evidence session is to get an understanding of the role of consultants and outside advisers in the stock transfer process. We have copies of the Scottish Executive's list of all the option-appraisal contracts that have been awarded so far and obviously DTZ Pieda Consulting has been very successful in that respect—congratulations on that. However, for the committee's benefit, it would be useful if you could briefly describe the process of tendering and obtaining this kind of work.

Secondly, will you give us some details about the breakdown of funding? Some funding is substantial. For example, the feasibility study for Aberdeen City Council on the options for the future of council housing comes to almost £2 million over three years. Can you give us a breakdown of how much of that is involved in the option-appraisal exercise, the housing condition survey work and the valuation work? Furthermore, without giving away commercial secrets, can you tell us how much of that amount is profit?

Peter Wood: That is a long question. I shall ask Robert McDowall to speak specifically about Aberdeenshire, as he is managing that contract. At the outset, I would like to make it clear that nothing like £2 million will come in our direction.

The normal process—as with almost all consultancy work—is for us to receive an invitation from the authority to tender. The authority decides who to invite to tender; it draws up a tender list and sends out a detailed invitation to tender that specifies the work that is to be done, gives some indication of the preferred approach and invites a written response following a normal tender procedure—usually allowing an interval of three to four weeks between the receipt of the invitation to tender and the submission of the proposal. We then prepare a detailed proposal, in response to the invitation to tender, which covers the technical methodological issues—the way in which we propose to carry out the study—and which contains financial proposals for the cost of the study.

11:45

It is normal—but not invariable—for the next stage in the process to be the drawing up of a shortlist by the authority. The shortlisted tenderers are then invited for an interview, which might last about an hour. The tenderers give a presentation on their proposed approaches and subject themselves to questioning. The people who question them are officials, who might be elected members. At the end of that process, the authority decides who it wants to appoint and issues a letter of contract to the successful tenderer. There might be some negotiations over the fine detail before the contract is finalised, but that is basically the

end of the process.

I now refer to the specifics, taking as an example the case of Aberdeenshire. I shall allow Robert McDowall to speak on that example in a moment. It is important to bear it in mind that there are several distinct elements to the work that is to be carried out. In all these projects, we work with subcontractors—that is to say, subcontractors are responsible for carrying out the physical inspection work that is necessary for the stock condition survey. We also subcontract household survey work when that is required. A large part of the total contract value goes to that subcontract work. I shall return to the issue of profit at the end, if you wish, but Robert will now comment on other aspects of the work.

The Convener: I am sure that we will return to the issue of profit.

Robert McDowall (DTZ Pieda Consulting): Did you say that the council that is involved is Aberdeen City Council, rather than Aberdeenshire Council?

Alex Neil: Yes, Aberdeen City Council.

Robert McDowall: We are not working with Aberdeen City Council; we are working in Aberdeenshire.

Alex Neil: We were informed that DTZ is working for Aberdeen City Council.

Robert McDowall: I shall clarify the situation.

Craig Fulton (DTZ Pieda Consulting): We are providing valuation advice for the option appraisal that is being carried out by Aberdeen City Council. However, that is only a small part of the option appraisal work.

Alex Neil: Please focus on Aberdeenshire Council, for which the contract is £100,000. The questions remain the same.

Robert McDowall: Yes, they do. I was going to address the questions in relation to Aberdeenshire Council. A number of components are relevant to the Aberdeenshire Council option appraisal. There is substantial consultation and communication. For example, we held two community conferences in Aberdeenshire on Saturday, when 200 representatives of community groups passed through the doors of Woodhill House. Substantial consultation and communication involves tenants, members of staff, officers, council members, community organisations, partner organisations such as housing associations and Scottish Homes, health boards, health trusts and so on. That is a substantial part of the work.

The stock condition valuation is being carried out by DTZ Pieda, and the stock condition survey work is being carried out by the John Martin Partnership, which provides the surveyors on the

ground. That work has been completed and will be reported on in the next six weeks. In Aberdeenshire, a tenants' aspirations study was conducted by System Three—another subcontractor of ours—which involved a 20 to 30-minute interview with 1,200 representative tenants who were selected at random from Aberdeenshire's stock list of about 16,000 tenants. The findings of that study were reported to the council two weeks ago, and to the community conferences on Saturday.

There is also substantial financial analysis, which involves examining how the council has provided the housing service until now and how it might provide it in future. That information is fed into the option appraisal. Aberdeenshire Council is considering three broad options: retention of the status quo; partial transfer, perhaps of particular areas that are in need of high investment or where tenants express a particular preference; and whole stock transfer. All the options will be determined by financial and non-financial issues, such as tenants' preferences and aspirations and housing need.

The Aberdeenshire study started in October and is expected to finish in about June. We have been heavily involved in Aberdeenshire. There have been substantial meetings over the winter, which are continuing.

Alex Neil: Can you give a rough breakdown of the costs?

Robert McDowall: The tenants' aspirations study cost about £25,000. The valuation cost a similar sum—about £30,000. The surveys of properties cost about £30,000. The balance was spent on financial analysis, option appraisal, producing reports, consultation and so on.

Alex Neil: And on profit.

Robert McDowall: As I said, there was a small contribution to our modest overheads. [*Laughter.*]

Peter Wood: We do not calculate profit as a slice on top of the price. Our costings are based on the number of days committed by personnel. Days are costed at rates based on the cost to the company of employing those personnel, including a return on the company's investment. If we carry out the job within the budgeted time allocation, we will make the group target profit. If we do not—if we run over—we make less profit, and might even make a loss, although we sincerely hope that that is not the case.

Alex Neil: I will not ask you what your daily charge-out rate is, because you will no doubt tell me that that is commercially sensitive information, unless you want to volunteer it.

Peter Wood: Our rate is in line with other people's.

Alex Neil: In your business, what would be the average cost across the board? A total of £26 million of public money is being spent on consultancy. What would be the average charge-out rate across the board? I do not want you to tell me your company's rate, but in broad terms, are we talking about £500 a day, £700 a day, or £1,000 a day?

Robert McDowall: It depends on the skills of the members of staff, but on balance—taking into account everyone from director to assistant housing consultant—£500 a day would not be far off the mark.

Alex Neil: How many companies are involved in the business? Is it a competitive field? You appear to be very successful and to have a bit of a monopoly. Typically, how many companies would be invited to tender?

Peter Wood: As an economist, I would challenge the use of the term "monopoly". We certainly do not have a monopoly. The number of companies invited to tender varies. Recently, we received an invitation to tender, not strictly for a full-scale transfer, but for an option appraisal that could have involved transfer, which we were told had gone to 14 parties. Not all of them would be serious contenders. I am not sure what Craig Fulton and Robert McDowall think, but I would say that there are five or six serious players.

Alex Neil: Is there much crossover between local authorities? With all due respect—I would make the same comment to any company that had done more than one study—by the time you are on to your fifth, sixth, let alone your 11th study, there must be an element of getting new money for old rope. Is the public sector being ripped off?

Peter Wood: We sincerely hope that the more studies we do, the more efficient we become. That is normal in any business. Any company that gets a long production line would like to think that its efficiency would be improved. We would hope that we would get better, would deliver a better product and would achieve a good financial performance. However, I emphasise that the process of tendering is always competitive. What we charge—or can hope to charge—is very much determined by what our competitors bid.

I hope that there will be improvements in our internal efficiency, although I hope that the client will always get the same quality of product. I do not deny that there is some gain from having three or four studies take place within a short space of time. However, other people are also procuring those gains, which are increasing their competitive advantage as well. Competitive pressure helps to keep costs down.

Craig Fulton: We have learned that every local authority is different. There is no comparison

between Western Isles and Dundee, nor is there a comparison between rural and urban areas on the mainland. With every local authority, we start from scratch. The main crossover in terms of the lessons that we learn from each case is in the way that we do things, rather than in the information that we process.

Alex Neil: I think that I am right in saying that you were contracted by the Scottish Executive to write the guidelines for the process. Is that correct?

Peter Wood: That is not quite correct. Several years ago, I produced guidance on the process of strategic option appraisal for the then Scottish Office. That was before the policy of new housing partnerships was dreamed up.

Alex Neil: Might there be benefits to the public sector in having some central intelligence gathering at Scotland level by the Scottish Executive, which could then be dispersed to local authorities to enable them to make the best use of consultants' exercises, given the amount of money that is involved? Is there any evidence of intelligence gathering about best practice?

Peter Wood: We were discussing that question this morning. We believe that clearer guidance could be issued to authorities about the process. There is no harm—indeed, there are positive benefits—in what you are suggesting.

Alex Neil: I will restrict myself to a couple of final questions to allow other members to come in, although there are many other questions that I would like to ask. On the whole, do you regard stock transfer as good for Scottish housing?

Peter Wood: You have picked the most difficult question to answer.

Alex Neil: You have never shied away from political questions before.

Peter Wood: In the current policy environment, stock transfer represents a serious and viable option, because it is a means of increasing investment in social housing. Given the general policy framework in which we are operating, the restrictions on public spending and the likelihood of councils being unable to spend by any other mechanism, stock transfer is a means of bringing to bear badly needed additional investment on Scottish housing. Those are the reasons in its favour. One could imagine a different policy environment in which there were different ways of procuring the same ends.

Alex Neil: Your emphasis is on the availability of capital, but we have not yet had a satisfactory answer to the question of the cost of capital over a 20-year or 30-year period. When one is borrowing from the Public Works Loan Board, the cost of capital is substantially lower than it is traditionally

when one is borrowing from the private sector. Have you done any option appraisal work comparing the two? Leave aside the issue of availability—let us assume that, as a think-tank demonstrated the other day, the Chancellor of the Exchequer could fund this borrowing without breaking any of his rules. Is the cost of borrowing for the way in which housing transfers are to be funded significantly higher than what it would be under the traditional Public Works Loan Board method?

In your option appraisals to date, have you ever recommended that a council should not go ahead with a stock transfer?

Peter Wood: I will deal with the second point first. Only one of our studies is nearing the recommendation stage, so I can answer only for that. As we have not finalised that with the council, I cannot tell you what the recommendation is. We considered with that council at some length possibilities for the retention of the stock. We showed a way forward that involved retention of the stock, although it had certain problematic consequences. We are working with another authority that we know is adamantly opposed to stock transfer to consider ways in which the necessary investment might be procured.

We recognise that the option appraisal must be carried out within the existing policy framework. It is not part of our brief to propose a complete change in Government policy. We have carried out illustrative work, in which we have said that if the council's debt burden was relieved by this amount, it could retain the stock and make this investment in it. We have carried out that illustrative calculation at the request of an authority, but we cannot recommend a course of action that is contrary to Government policy.

Robert McDowall will comment on the cost of capital.

12:00

Robert McDowall: We have nearly finished studies in two other councils. In one case, we have recommended transfer as the only viable option. I cannot mention which council that is, as it is still in camera. We have recommended that the other council should maintain the status quo until it has done a council-wide option appraisal, as the option appraisal was focused on two small areas in its area of activity.

I agree with what was said about the availability of private finance. That marketplace has become very sophisticated during the past 10 years—private finance has been in Scotland for 10 years and in England for a little longer. A significant degree of professionalism and skill comes through in that marketplace. Because of that, it is a

competitive marketplace. In Scotland, the average interest rate margin that funders charge has come down by more than 50 per cent compared with 10 years ago. Therefore, the cost of capital for a stock transfer 10 years ago compared with one done last week—

Alex Neil: But that is during a period when interest rates have gone down substantially.

Robert McDowall: I said the interest rate margin—not the overall interest rate. I am talking about the physical margin that a funder would charge.

Alex Neil: How does it now compare with Public Works Loan Board funding?

Robert McDowall: I will come to that. It is important to set the scene.

The marketplace has been competitive during the past 10 years. Plenty of money and players have been around, so the interest rate margin has come down by more than 50 per cent.

Because the new housing partnership agenda is dealing with larger transfers than hitherto have been seen under the Scottish Homes umbrella, greater sophistication is required again. The marketplace has broadened out into bond issues and bigger financial instruments in the city rather than only debt. That must be helpful because, when one is dealing with bonds rather than debt, the margin is even finer in the bond issue, so a better deal is done. It is moving towards the margin that the Public Works Loan Board would charge councils, but I do not think that the deals will be as fine as Public Works Loan Board ones. However, substantial progress has been made.

Alex Neil: What is the gap that still remains?

Robert McDowall: The gap would be 20 to 30 basis points—0.2 to 0.3 of 1 per cent. That is a substantial amount when we are talking about a transfer of £100 million, but what we are looking at is the risk weighting associated with a council, which is entirely different from the risk weighting that the Bank of England puts on a registered social landlord. The risk weighting for a council is 25 per cent; for a registered social landlord, it is 50 per cent, so those loans come under different capital regimes. There will always be a gap unless the risk weighting is changed.

Alex Neil: Is there a case for changing the risk weighting?

Robert McDowall: That was subject to review about two years ago through the Bank for International Settlements and no changes came through, so I presume that there is no case for change.

Mr Keith Raffan (Mid Scotland and Fife) (LD): As well as specialising in housing, DTZ Pidea

Consulting is an economic consultancy. In your option appraisals on the Stirling action plans 1 and 2, "Regenerating Stirling's Excluded Communities" and "Pressured Rural Communities", did you take a cross-cutting approach to economic and housing issues, with housing as one component of those appraisals? In other words, were you advising the council on other issues apart from housing?

Robert McDowall: To which project are you referring?

Mr Raffan: To the ones that are listed. I thought that those were the projects in which you are involved.

Robert McDowall: I am involved with Stirling Council.

Mr Raffan: These are the ones listed in annexe B, which states that DTZ is the consultant for

"Action plan 1 – Regenerating Stirling's Excluded Communities".

Robert McDowall: Those are the projects to which I referred earlier. The report has not been concluded yet and is still in discussion. Stirling Council considered two areas and is about to consider another.

Mr Raffan: The point that I was trying to make is that, in trying to regenerate entire communities, you are integrating both economic and housing consultancy—it is a broader remit, rather like a social inclusion partnership. Housing is only one component of that.

Robert McDowall: One could argue that that is why we have been relatively successful. We have a broad range of skills that are not limited to finance, housing or valuation. There is a general economic issue in social housing and we bring that into studies when we can.

Mr Raffan: You said that you advise councils, including one that is adamantly opposed to stock transfer; I assume that that is Clackmannanshire—

Peter Wood: No.

Mr Raffan: Oh.

Peter Wood: You are close.

Mr Raffan: Ah. I have a question that Mr McDowall partially answered when he was talking about Aberdeenshire in response to Alex Neil. You list your expertise and services, but surveying is not among them. How can you undertake stock condition work without having surveying expertise? Do you subcontract to do that?

Craig Fulton: DTZ has been providing condition survey work for the past 15 years through Debenham Thorpe, which is a sister company. That is where my expertise comes from. I have been involved in stock condition work for the best

part of 30 years. We are qualified to supervise subcontractors who carry out stock condition work. We know what they are doing and we oversee their work.

Mr Raffan: They are doing the surveying and you are doing the valuation. Is that correct?

Craig Fulton: No. Debenham Thorpe does the work on the ground—it carries out the inspections of the property. It is involved, but we are responsible for the co-ordination of the stock condition exercise with the council, to ensure that it is done properly and feeds into the valuation.

Mr Raffan: Could you be more specific about how you are involved in that?

Craig Fulton: We have a couple of contractors who carry out stock condition work, who have good information technology skills and are certainly capable of carrying out surveys on the ground. We have developed a routine for taking that information from properties and processing it into a form that we can use in the valuation.

Mr Raffan: Do you have a particular model for doing that?

Craig Fulton: Yes.

Mr Raffan: Is that a software model?

Craig Fulton: We use several models. The expertise that we expect from our subcontractor is the ability to collect information and to process it into a form that we can use in our models.

Mr Raffan: I want to ask about the value of Scotland's housing, which the Convention of Scottish Local Authorities and Scottish Homes estimated at being between £1 billion and £2 billion, and the debt, which at £4 billion is more than twice that amount. Why is there such a difference?

Robert McDowall: I understand that the figures are broadly accurate. When one considers the historic build-up of council housing debt, an issue that immediately comes to mind is the previous treatment of right-to-buy receipts. Councils were encouraged to use right-to-buy receipts to provide the housing service and were not required to pay down the proportional amount of debt on each house. That situation prevailed until about three years ago, when councils were instructed thereafter to use 75 per cent of every right-to-buy receipt to pay down debt and use only 25 per cent to provide the housing service. It is a matter of simple economics that if one borrows money to create an asset, and then sells the asset without paying back the debt, there is an imbalance.

Mr Raffan: It is difficult to prepare a valuation that is entirely objective. Presumably, one has to consider whether it is likely that there will be competition to buy stock. If stock is in relatively

good condition and is sought by different people, the valuation will be affected.

Craig Fulton: We have guidelines for valuations. Most of the valuations that we are carrying out are basic tenanted market valuations. At the moment, we are dealing with the first building block in a process. We would like to think that those valuations will be used in the next process, which is the option appraisal. Valuations will be revisited down the line, once there is information from demand studies, tenant consultation, option appraisal and feasibility studies.

Mr Raffan: So valuations can be substantially altered?

Craig Fulton: Absolutely. In the first instance, we prepare a basic tenanted market valuation. We use information that is available in many cases before the process of demand study, option appraisal and feasibility study begins. We use market-related assumptions in the tenanted market valuation. We are often asked to prepare a retention valuation; in such cases, we produce a valuation that is based on the circumstances of the local authority that owns the stock. However, on the basis that a local authority cannot sell the stock to itself, we have to prepare a tenanted market valuation on market-led assumptions.

Peter Wood: I will add that I would not describe the process as subjective. It is an entirely objective process.

Mr Raffan: Can I interrupt? It has been said that the valuation can be substantially altered down the line, which does not suggest that the process is entirely objective—there are obviously degrees of vagueness to it.

Peter Wood: I wanted to endeavour to answer that point. The procedure of valuing an asset by calculating the net present value of the net income stream that is associated with the asset is absolutely correct. One calculates how much rent and other income the asset will produce, and sets that against what must be spent on the asset. The difference between those two amounts, which are subject to the normal financial appraisal methods, is the value of that asset. Why might that value change? Although the process is objective, we have to make judgments about certain elements in the process that may alter.

Why, one might ask, if we have arrived at a value of stock of—let us say—£50 million, might someone pay more? They might pay more if they think that they can squeeze more money out of the stock. For example, they might think that they can carry out management and maintenance more cheaply than the valuation assumes that that will cost; if that is projected over 20 years, there will be greater surpluses and therefore the stock is worth

more to them. The value would also change if they made assumptions about future levels of rent that differed from the assumptions that are built into our analysis. The fundamental reason why the value might change is that people might arrive at different conclusions about the objective elements in our valuations; they might think that the costings that we have allowed are too high or too low and they might take different views about the income that can be generated.

We make the best estimate that we can on the basis of the evidence in front of us at the time that the work is carried out. As the process moves forward, people may start to take different views about how much work they intend to do on the stock and the timing of that work. Those matters all affect the valuation, as they have an impact on what a potential purchaser would be able to pay. Although the process is objective, there are many elements within it that can be altered and about which different assumptions can be made.

12:15

Mr Raffan: As you said, it relies on judgments.

Peter Wood: Indeed it does.

Mr Raffan: And judgments are, by nature, subjective. When the valuations are revisited further down the line, are they usually substantially altered? If they are, are they altered upwards or downwards?

Craig Fulton: We have not reached that stage yet. In the case of the Scottish Homes transfers that were previously carried out, the valuations were altered upwards and downwards. The structure of any company that is going to deliver housing services will also alter the valuation. When we carry out the basic tenanted market valuation, we are not in a position to prejudge the option appraisal result or the feasibility study result. The company structure that could be brought into force should a transfer occur may substantially alter the value added tax provision within the valuation, which could alter it upwards or downwards. We are looking at a moving picture. We must give the first building block in the process to our colleagues, and that is the work that we are doing at present.

Robert McDowall: Another simple dynamic that changes valuation is the fact that councils across Scotland have reviewed their rents and have sent out letters to their tenants. If we do a valuation based on a rent roll on 1 April 1999, and the assumption that we have used for the rent on 1 April 2000 is not the same, that will obviously change the valuation.

Karen Whitefield (Airdrie and Shotts) (Lab): I am conscious that we are already running over

time, so I shall keep my questioning to one specific line—the issue of scrutiny.

Given that there are different interests for buyers and sellers of housing stock, do you think that there is any need for scrutiny by a third party if a price has been agreed?

Robert McDowall: If one considers the history of stock transfers in Scotland, one can see the role that Scottish Homes has performed. In some cases, it has been the landlord or vendor. In other cases of transfer from a former new town or from a council, Scottish Homes has been involved in that process. It provides a good level of scrutiny of stock transfers as they happen. Within the sale and purchase agreement to any stock transfer—which is a public document at Register House post the event—Scottish Homes is challenged with monitoring the organisation relative to the sale and purchase agreement. There is therefore a good level of scrutiny which ensures that issues such as value for money continue to be examined post the transfer process, and that promises made to tenants during the run-up to the ballot are being adhered to within the sale and purchase agreement. Scrutiny must prevail in any stock transfer.

Karen Whitefield: Can you give us details of the existing scrutiny mechanisms that are used? Do you believe that anything could be done to enhance existing scrutiny?

Robert McDowall: As I said, scrutiny in a stock transfer revolves round the sale and purchase agreement. Scottish Homes has usually performed an audit of a transfer organisation up to two years post transfer. That gives the organisation a chance to acquire the stock, to settle down and to get itself built up for delivering promises to tenants. That audit process can last up to a week for a transfer organisation. It considers policies, procedures, structure and delivery of the promises that were made to tenants. The report, which shows how the organisation has performed, goes back to the committee of management and officers of the organisation and to any tenant representatives.

If Scottish Homes is happy with the outcome, the organisation will fall into its normal monitoring procedure, which involves examination every three years. If it is not happy with the outcome, a period of time will be set within which things will need to change. The things that need to be changed will be specified in the audit report. A further visit will take place and powers under the Housing (Scotland) Act 1987 will come into play if the organisation fails to achieve the targets.

Karen Whitefield: The minister has made it clear that, in the forthcoming housing bill, the role of Scottish Homes will change. Do you think that that will have implications for the scrutiny of new

housing partnerships?

Robert McDowall: I understand that, with the creation of local housing companies and registered social landlords, there is already a mechanism whereby they are governed by contract as opposed to through statute. One would presume that the forthcoming housing bill would bring all RSLs under new legislation and that the scrutiny that is currently carried out would at least be replicated in the new bill.

The Convener: Have you been involved in discussions about the draft guidance that we believe is about to emerge from the Executive?

Robert McDowall: No.

The Convener: Have you been involved in any of the guidance issued in England?

Peter Wood: We have had no involvement in the production of guidance.

The Convener: On behalf of the committee, I thank you for your evidence, which was extremely interesting. If we have any other questions, we shall write to you.

We shall now move into private session.

12:20

Meeting continued in private until 12:31.

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