SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

Wednesday 29 March 2000
(*Morning*)

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CONTENTS

Wednesday 29 March 2000

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SOCIAL INCLUSION, HOUSING AND VOLUNTARY SECTOR COMMITTEE

13th 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

Ms Wendy Alexander (Minister for Communities)
John Breslin (Scottish Executive Development Department)
Mr Frank McAveety (Deputy Minister for Local Government)

CLERK TEAM LEADER

Martin Verity

SENIOR ASSISTANT CLERK

Mary Dinsdale

ASSISTANT CLERK

Rodger Evans

LOCATION

Committee Room 1

Scottish Parliament

Social Inclusion, Housing and Voluntary Sector Committee

Wednesday 29 March 2000

(*Morning*)

[THE CONVENER *opened the meeting in private at 09:02*]

09:32

Meeting continued in public.

Housing Stock Transfer

The Convener (Ms Margaret Curran): I formally open today's proceedings in public and, as usual, welcome everyone warmly to the meeting, especially the minister. This is an important meeting for us, as it is the culmination of a thorough and robust process of evidence taking. Those who have followed the consultation procedure will know that we have been looking forward to this meeting, at which we intend to pursue several lines of questioning.

Before I ask you to address the committee, minister, I would like to explain our intentions, so that everyone is aware of the way in which we will proceed today. We have received a lot of evidence, which has dealt with housing stock transfer thoroughly. Issues have emerged that we would like to explore with you in depth. I understand that you have been informed of the areas of questioning that we want to pursue with you. Those areas have been suggested by members of the committee and it is important that we address them all.

Within the themes that we will be considering, members will approach issues from different angles, and we may revisit certain issues later. However, the agenda will be structured and, as members of the committee will testify, I can be very nippy when convening meetings. With all due respect, I may have to move us on at times; I ask everyone to bear that in mind. I shall ask you for a brief statement, after which we will move on to a round of questions from committee members.

The Minister for Communities (Ms Wendy Alexander): Thank you, convener. I am delighted to be here. As everybody knows who has been involved in this matter—both out there in Scottish housing and in the Executive—we are trying to do some fairly radical things. I would not want to pretend that we have dotted all the i's and crossed all the t's—this is an iterative process. However, the important thing is that we are embarking on radical change, using the housing bill as the foundation. We look forward to the committee's report and stress that we regard it as part of an on-going dialogue as authorities choose whether their tenants are to vote to move towards stock transfer.

Our objective is decent and affordable housing for all. At the top of the agenda is the need to improve the quality of Scotland's housing stock. In 1997, before the Executive came into being, £330 million was available, over three years, arising from the receipts of council house sales in England and Wales. The decision was made that that should be invested in new housing partnerships. Central to that policy was the possibility of lifting the debt burden following stock transfer. That was a commitment that no previous Administration had given.

This winter, I have been working with the Glasgow steering group to develop a transfer framework for our largest city. We thought that that was important, and we welcomed Glasgow's decision, prior to the establishment of the Executive, to lift the debt burden. That transfer could generate more than £1 billion of investment for 80,000 homes. The Executive recognises community ownership as a key element of policy objectives. We intend to structure stock transfers in such a way that there is an opportunity for tenants to have a direct input into the management and, ultimately, the ownership of their houses.

Today we will, no doubt, deal with several other issues that have arisen as we have tried to move beyond the feasibility studies and towards a framework study. As members will know, the Glasgow framework document is not yet complete or published, but we expect it to be produced shortly. As the decision on value for money rests with the Executive, it is important at the early stages that we work closely with local authorities, so that they do not prepare business plans that fall at a later hurdle when we are asked to assess value for money.

Concerns have been expressed by tenants, employees and others over the delay in involving them in the process. We felt that it was important to establish with the council whether there was a basis for proceeding before—once the framework had been agreed—going on to develop a proposal over a year or more, or however long the tenants and others felt that the process would take. The proposal would then be put to a ballot.

We are hopeful that the framework of agreement between the Executive and the council will be ready shortly. That will then be distributed to the tenants, as part of a consultation process that will last for more than a year. We have set aside £1 million specifically for tenants to appoint independent advisers and to consult on the proposals. That is part of the £2.8 million package that Glasgow will receive to progress with the framework if we can reach agreement.

We are at an exciting stage. We have the opportunity to lift the debt burden, to achieve a step change in investment and to introduce the best ever tenants' rights package. I look forward to sharing the Executive's thinking with the committee today.

The Convener: Thank you, minister. That was very brief. We also thank you for your memorandum, which was substantial and informative. We will pursue issues that are related to that, but I would like to start by asking the big questions about the vision. Housing is clearly on the political agenda in Scotland; all members of the committee welcome that. Can you outline the main problems that face Scottish housing?

Ms Alexander: The main problem has been a prolonged period of under-investment. From reading the considerations of the committee, I know that people are aware that the tenanted market value of all the housing stock in Scotland is assessed to be around £2 billion. Nevertheless, there is a huge, overhanging debt. The issue is how we deal with the debt burden and achieve a step change in investment. That would begin to deal with many of the problems that the stock condition survey has highlighted, notably the 500,000 houses in Scotland that suffer from dampness and/or condensation.

The challenge for us was to come up with a financial package that lets us not only continue to deal in familiar ways with some of the problems that we face—I am thinking particularly of the capital allocations line to councils that runs on as before—but complement those with measures to achieve a step change. The first of those is the rough sleepers initiative. The second is the new approach to homelessness, which is being pursued by the homelessness task force. The third is the largest ever energy efficiency programme, which aims to deal with problems of dampness, particularly in the private sector, where the action that we are taking in the socially rented sector will not help. The final measure is to examine more strategically through Scottish Homes the ways in which we address the very different problems of urban and rural Scotland. We are doing that with a budget that will be 40 per cent bigger than the budget that was planned by the Conservatives in 1997-98. There are substantial new resources, but the challenge is to lever in even more.

The Convener: That was a comprehensive outline of the problems as well as of the measures that the Executive is taking. If there were one thing that you wanted to achieve as the minister responsible for housing, what would it be?

Ms Alexander: I want to create a vision of sustainable communities in some of the areas that have suffered most. That means starting with Glasgow because, although only one in eight households in Scotland are located in Glasgow, it has one third of Scotland's homelessness and one quarter of its dampness. If we can demonstrate a new approach that works in that city, we will be creating a beacon of hope for the rest of the country.

The Convener: We will deal with Glasgow as a separate issue. I have some more questions about your vision. You are energetic and pushing hard on this issue. What is the biggest obstacle that you face to implementing your vision?

Ms Alexander: Fear.

The Convener: From whom?

Ms Alexander: There has been such under-investment—some of it calculated—that people no longer have hope. Let me pursue the Glasgow example. Glasgow has a housing debt of £1 billion. Over the past 20 years, another £1 billion has been invested, but the housing stock is valued at less than £100 million. When tenants know that there is an outstanding debt of £1 billion and that another £1 billion has been invested, but that the value of the stock stands at something less than £10,000 a house, that leads to a climate of despair. When we seek to turn that around by a step change in investment—by saying that it is not enough to take the debt away and that we need large-scale new investment over a short period—people fear that that means privatisation. We have seen a lot of unfortunate and misinformed commentary suggesting that community-based landlords and non-profit organisations are in some sense equivalent to privatisation. Fear has fed off this culture of despair. The challenge is to address that.

The Convener: I want to move on to community ownership and to pick up the point that you have just made about privatisation. Some people fear privatisation. There are arguments about that—we all know what they are. However, as a member of the Labour party, are you not concerned about bringing the private sector into the public sector? People do not feel well protected by the private sector. Some of us would argue that the market has never delivered for the poorest tenants of Glasgow. Why should we let the private sector in and pretend that it can protect them?

Ms Alexander: We are not inviting in the private sector to manage the housing stock, but I think that you are right. The history of social housing is about recognising market failure and the fact is that that market failure will continue. However, at no point in history has it been inappropriate to harness resources, expertise and finance from the private sector to deliver on social objectives. We want to ensure the continuance of social housing. What we are doing is shifting from a municipal model of social housing to a community model of social housing that has access to private investment. We have given a commitment that no landlord will make a profit out of our proposals. People can become a landlord only if they are non-profit distributing. That was a conscious political choice that we made; I do not think that other Administrations would have made the same choice. They might have decided that, as we have a small private rented sector, they could let a thousand flowers bloom and allow landlords to make a profit, as long as they managed their properties effectively.

09:45

The Convener: On community ownership, what comparisons can be made between the situation in Scotland and the large-scale transfers that have occurred in England? Can you give examples of good community ownership and bad practice in community ownership?

Ms Alexander: The English situation is not particularly helpful in understanding what we are trying to achieve in Scotland. A lot of people in England have adopted aspects of our policy. What has worked in Scotland is tenant-management co-operatives within the council housing sector and housing associations within the rest of the socially rented sector. There is a strong Scottish tradition of community-based housing associations, which are typically smaller than their English counterparts. We should try to build on our good record in that area. We need to consider those landlords who are operating in local community-based housing associations or tenant-management co-operatives in councils that have had difficulty accessing private investment.

We are trying to reassure the funders about the fact that the scale of what we are proposing is ambitious—it will be the largest conveyancing transaction ever to take place in Glasgow, a city that is further in debt than any city in the British isles. Thirty seven thousand houses in Glasgow have been transferred from Scottish Homes to local housing associations. That process has been a success. All the tenant surveys show that most people are either more satisfied or as satisfied with the new arrangements as they were with the old arrangements. I think that only 8 or 9 per cent of people are less satisfied. There are models in Scotland that we can look to in our attempt to realise a vision of community ownership.

The Convener: Are there examples of the process going wrong? Do you have worries about the process failing?

Ms Alexander: Scottish Homes has conducted some 142 ballots, of which I think around 130 have been successful. People have the opportunity to say no to the proposal and our challenge is to make the positive case and learn lessons from failures elsewhere.

The Convener: Your memorandum talks about affordable housing, which is important to anyone with a social inclusion agenda. What do you mean by affordable housing?

Ms Alexander: Affordable housing is housing in which people can afford to live. One of the perverse facts of recent years is that rents in the city of Glasgow have gone from being the second lowest in the country in 1979 to being the highest. The people managing the under-investment recognised that, as more than 75 per cent of the rent revenue came directly from the Treasury, one of the ways of dealing with progressive under-investment was to jack up rents.

I am happy to say that we have a real opportunity with community ownership in Scotland. Partly because of sensitive management by Scottish Homes, we do not have the huge divergence between the housing association sector rent structures and those of the council sector that is a feature of the English market. It will be much easier for us to move to a level playing field of registered social landlords, whether they be new ones or housing associations acquiring additional stock in their area.

The Convener: I know that you are familiar constituencies such as mine, which include very deprived areas in which tenants have a high dependency on housing benefit. If we are going to achieve affordability, value for money and social inclusion, the rent levels are very significant, particularly if we want to get people back into work. How does your policy address that issue and deliver social inclusion?

Ms Alexander: First, people need the opportunity to go back to work. The Government is addressing that by aiming to cut long-term unemployment by 40 per cent.

The Convener: Surely the housing benefit levels mitigate—

Ms Alexander: Secondly, people need to have a warm, dry house. We all know that rents have risen in order to deal with repairs, which have escalated because the underlying work has not been done. Our responsibility is to bring in new investment without relying on rents as the only vehicle for revenue.

Thirdly, within the housing benefit system, there must be appropriate incentives for people to work. We are awaiting further reform of housing benefit.

One of the policy considerations is benefit run-ons. In the past, lone mothers, for example, were reluctant to take the opportunity to return to work because of the time that it takes to reprocess a housing benefit claim. Flexibility through housing benefit run-ons has begun to have an effect and we can build on that to strengthen the incentives to work.

The Convener: I am sure that other members will pursue the housing benefit issue. Will the Executive move towards a common measure of affordability?

Ms Alexander: No. That is not something that we are considering.

The Convener: We may come back to that at some point. I have two further questions. I know that you are a great admirer of the chancellor, Gordon Brown, who is very prudent with public spending, as we all know—we can debate the success of that another time. Are you trying to keep public spending down, rather than addressing the profound needs of the poorer areas of Scotland, where there is large-scale poverty, exclusion and terrible housing conditions? We need public investment to address that issue and we need it now.

Ms Alexander: What is needed is investment in social housing. I am unclear about the advantages of squeezing out investment that might be more effective if it were put into schools or hospitals when we can access private investment for social housing needs. There would be controls on the process even if we were to put investment on the books by using public money. People can argue about whether they like the current controls, but there will certainly be some controls. If we bring in the investment through arm's-length organisations, which are not on the balance sheet, it would be possible to make the step change with speed. If we simply put in more money, we will not realise the benefits of community ownership.

I return to the point that I started with: we have £1,000 million of outstanding debt and an asset that is worth only £100 million, which makes me think that a different approach to management and ownership is required, as well as new investment.

The Convener: My final question: will there be council housing in Scotland in 10 years' time?

Ms Alexander: Definitively, yes. I think that underlying your question is whether stock transfer is the answer for everybody; it is not. Stock transfer is appropriate where there is a huge debt and where a lot of repairs are required. If I thought that stock transfer was the answer for everybody, I would have cut into the capital allocations that continue to run at £180 million a year and that have been unchanged since we came into power. We have funded this entire programme through surplus revenue that became available through the retention of receipts from English council house sales, from which we consequentially gained. The entire programme is funded through that windfall. The fact that there has been no attempt to cut into capital allocations to councils has been somewhat lost in the debate.

Councils have a genuine choice over which route to take. For the reasons that I gave, the stock transfer route is likely to prove more attractive in cases where there needs to be a huge change in investment and where the debt is enormous. However, in some councils—which may be smaller with more localised management, less outstanding debt and efficient repair schemes that can be funded from rental income—that route will be unattractive and inappropriate. We want councils to have a choice, and the Executive is trying to achieve that aim with its financing regime.

The Convener: We will now examine some of those issues in more depth. John McAllion will ask about objectives and options.

Mr John McAllion (Dundee East) (Lab): I would like to find out how you arrived at your policy objectives, with particular reference to the new housing partnerships. You have mentioned decent, affordable and high-quality housing, sustainable and secure communities, and long-term benefits for tenants. Those are all good things, but they are of such a general nature that any crackpot would support them—even Lord James Douglas-Hamilton would have been in favour of them during his spell as housing minister. That was a friendly jibe at Lord James.

Would it be fair to say that the new housing partnerships have three objectives: dealing with the debt overhang of some councils; achieving a step change in investment, which essentially means attracting private investment into council housing; and ensuring that there is what might be loosely termed tenant empowerment?

Ms Alexander: Absolutely—I could not have put it better myself.

Mr McAllion: Are new housing partnerships the only means of achieving those three objectives?

Ms Alexander: The only way in which we can fully deal with the debt overhang is through whole stock transfer. As you know, the new housing partnerships have two elements: development and regeneration partnerships, and whole stock transfers. We are embarking on whole stock transfers only this year. John is familiar with the situation in Aberdeen. There is a difficulty if you try to do partial stock transfers: how can you attribute the outstanding debt? If Glasgow has a debt of £1,000 million, how do you tell which bit is Castlemilk's and which bit is Easterhouse's? It is not attributable.

The second objective was to achieve a step change in investment. As I said in answer to Margaret Curran, controls are necessary and inevitable on any spending in the public sector, whatever the level. If you do things off the balance sheet, there is an opportunity to borrow to the extent that your rental stream will support.

The third objective was community empowerment. That can be achieved by a variety of means. Tenant-management co-operatives give tenants the opportunity to manage their communities; if new investment were available, tenants would have the opportunity to move on to ownership if they so wished. Scottish Homes and the whole housing association movement are built around community empowerment. That is financed not through new housing partnerships, but through the Scottish Homes development programme.

Mr McAllion: Are the unique characteristics of the new housing partnership policy that it will deal with the debt overhangs that affect specific councils across Scotland and that it will lead to a stepped increase in investment in social rented housing? In the long term, will you assess the success or failure of new housing partnerships on whether they achieve those limited objectives?

10:00

Ms Alexander: New housing partnerships help to create sustainable communities from communities that are at severe risk of being destabilised. Other parts of the new housing partnerships will increase the amount of socially rented housing stock. A large slice of the new housing partnership money that has not been allocated to whole stock transfer has been set aside to build 7,000 new houses, many of which will be for social rent. That is probably double the number that we could have achieved if we had not brought in private investment to complement public investment.

Mr McAllion: Will the advisory board of new housing partnerships play a role in assessing the success or failure of the policy in the long term?

Ms Alexander: Yes. There is no doubt that the steering group will have a continuing and evolving role. For example, in the next year, it will examine the proposals on whole stock transfers. It will also consider the performance of the new housing partnerships that are in place.

Mr McAllion: How long do you expect the advisory board to continue? Is it a permanent feature of Scottish housing policy?

Ms Alexander: We would be interested in your view on that point, as I do not have a fixed view on it. The advisory board was established to introduce a degree of scrutiny and expertise into how we were choosing what areas to support. We have tried to follow that principle a fair amount in the housing field. We used it in the rough sleepers initiative and in the homelessness task force. There will be a continuing need for us to talk to experts in the field, but we genuinely have not yet decided whether that should be done by the new housing partnerships in their present form.

Mr McAllion: How was the composition of the present advisory board decided? What is the board?

Ms Alexander: The board pre-dates the Scottish Executive and the election of the Parliament. However, perhaps John Breslin can recall how it was set up. I think that it was convened in 1997.

Mr McAllion: I remember that famous occasion when you were discussing the extension of the right to buy. You were highly critical of professionals in the housing field, and yet the advisory board appears to consist of no one but housing professionals. Can you explain why?

Ms Alexander: It is funny. Yesterday, I had a discussion with the Scottish Tenants Organisation, which raised with me a policy position that opposes new housing partnerships in principle. That was the first occasion on which the STO had made representations directly to me. There is at least a question—I put it no higher than that—that there is a potential conflict of interests if one opposes the success of a policy in principle and then sits on a committee that is charged with the specific task of delivering the success of that policy.

Mr McAllion: But is that a conflict of interests? Should not tenants belong to an organisation that deals with a policy that is meant to be good for tenants, regardless of whether they are opposed to that policy? They might be right to be opposed to it; it might be a good idea to change the policy.

Ms Alexander: That position raises the dilemma of how one chooses the tenant. I am sure that the 7,000 people who will live in the new houses will not be opposed to new housing partnerships. As part of the tenant participation strategy, we have worked hard to try to grow the STO into a genuinely representative organisation with a much larger number of affiliates. I look to the committee for ideas on how we can test tenant opinion most effectively. For example, in social inclusion partnership areas, we are increasingly using people's panels and citizens juries. A question mark hangs over whether some of those techniques should be imported into the housing field.

Mr McAllion: I can accept that there are problems about just how representative any tenants organisation may be, but surely it is not a good principle to run an advisory board by appointing to it only the people who agree with you. It may be a good idea to appoint people who disagree with you, especially if they represent a body of opinion among those who would be affected by the policy.

Ms Alexander: I did not make the appointments. All the decisions on funding, bar one that was taken at a meeting preceding the establishment of this Administration—

Mr McAllion: You endorsed the appointments.

Ms Alexander: I did not even do that.

John Breslin (Scottish Executive Development Department): I can reassure Mr McAllion that not everybody on the advisory committee agrees with the minister. [*Laughter.*]

Mr McAllion: That is very reassuring.

Ms Alexander: There is a genuinely serious point underlying your question. If we say that an objective of community ownership is that decisions should be made by the community rather than for it, we must be rigorous in ensuring that all stock transfer proposals are developed with the involvement of tenants.

That raises the question of how we should assess business plans. The previous Administration told the seven authorities whose feasibility studies were under way that they were at the front of the queue, that there was enough money to service their debts and that they could present their business plans. Those business plans will be presented at some point this year or next year and we will have to assess them.

At that stage, the criteria must include the extent to which the objective of community ownership is being realised, the extent to which tenants have been involved in discussions and the extent to which the planned new investment has been signed off by tenants. We have taken a hands-on approach to the Glasgow stock transfer proposals, saying that we want a joint steering committee, because we recognised that there was a risk of being presented with a centralist proposal 12 or 18 months down the line and having to reject it out of hand.

Members will know that there is frustration at the fact that the guidelines have not been finalised, because technical issues around such things as warranties have caused delays. I would welcome the committee's views on how those guidelines try to prescribe what we think community ownership means and the degree of tenant involvement that there should be. It is difficult to write a set of guidelines that is appropriate for 90,000 houses in Glasgow and for fewer than 10,000 houses in Orkney and the western isles. On the other hand, we must be prescriptive enough to avoid the risk of getting business plans back in a year's time that propose nothing more than quickly spending the extra private sector cash and allowing no tenant empowerment. Striking that balance in the guidelines and in the NHPs is one of the dilemmas with which we are wrestling, and we would welcome the committee's views.

Mr McAllion: What alternatives did you consider before deciding on new housing partnerships? There are always alternatives in politics—Mrs Thatcher was wrong to say that there is no alternative. Council housing, for example, is an alternative form of community ownership, and you have told the committee that you agree with that. Why then does your memo to the committee say that it would not be a good idea to write off council debts and allow councils to borrow further?

Ms Alexander: The entire new housing partnership programme is financed from the windfall of additional money that we have received. Support for councils continues at the same level; it has not been cut at all to finance the programme. There are other elements of the programme, such as rough sleeping and energy efficiency. Scottish Homes also has development money, which has not been cut and is increasingly being redirected to rural areas. This is not a one-club policy.

Our choices in relation to councils do not give us access to the step change in money. We therefore decided to maintain a level playing field and make two or three add-ons with the 40 per cent increase that we think will leverage the largest step change. That involved using vehicles that allowed us to access private investment, just as Scottish Homes has done. For every pound of public money, Scottish Homes has been able to lever in an extra pound of private money, and we thought that that model would allow us to bring about the highest achievement most quickly.

We have encouraged local authorities to consider the whole range of financial vehicles. In this case, we found the private finance initiative option unattractive, because the private sector would own the assets for the period of the contract. As a result, we have come up with a model that ensures that the landlords are social and non-profit distributing. I know that people have investigated rent securitisation; however, if the local authority still owns the houses, the borrowing remains subject to the public sector.

Financiers who have examined this issue raised interesting questions about the extent to which private sector investment is attracted on the basis of asset cover or the future of the rental stream. Within the parameters that we have set on non-profit landlords, several financiers have been considering appropriate options for the local authority concerned.

Mr McAllion: Was consideration given to moving Britain into the 21st century by giving up the 19th century Treasury definition of public borrowing, and accepting the modern European convention on general Government financial deficit, which would have allowed many councils to borrow privately without that counting against public borrowing? Has Gordon Brown completely ruled that out?

Ms Alexander: If we are going to talk about 19th century accounting conventions, we should also talk about some fairly archaic housing management approaches. Given the situation that we have inherited, what is the most effective way in which to access large-scale private investment? However, that is not enough on its own, as it does not acknowledge the benefits of community ownership. When Glasgow City Council embarked on this project, it produced a feasibility study that the housing movement widely criticised for not realising the benefits of community ownership and instead running the risks of simply creating a Glasgow City Council mark 2. Our policy is characterised both by access to new investment and by new models of management control and ownership.

Mr McAllion: Obviously, the use of private investment gets round the Treasury's attempts to control short-term borrowing. However, such investment has long-term implications for general Government revenue spending. For example, the seven stock transfers—if they go through—will cost £125 million in the first year, and £46 million up to 30 to 40 years hence. Furthermore, there are serious housing benefit implications. The housing benefit bill has spiralled out of control over the past years because of the withdrawal of subsidy for council housing. As a result, if rents increase—which is likely under new housing partnerships—there will be even greater implications for housing benefit. What assessment has been made—either by the Scottish Executive or by Westminster—of such long-term implications for public spending?

Ms Alexander: Let me start with rents. We are confident that, through the new housing partnerships, we will be able to offer people rent guarantees, which has simply not been the case in the past. Rents in Glasgow have increased in real terms by between 4 and 5 per cent over more than 15 years with no guarantees for tenants. However, we can lock in rent guarantees that will offer tenants real security.

As for demonstrating value for money in this exercise, we had to undertake some modelling and have some discussions with the Treasury before this Administration took up its powers. No doubt, the Westminster Public Accounts Committee and the Scottish Parliament Finance Committee will both take a continuing interest in whether our debt servicing proposals represent value for money and are appropriate.

That is one reason why we were encouraged that Glasgow moved first. If a limited amount of money is available for debt servicing, the risk is that one residualises some of the big authorities with the worst problems and does not deal with them until last, by which time it becomes difficult to deal with the problems at all.

It is often asked why housing is not kept within the public sector and why it not enough to write off the debt and let the council keep the rental income, which is £100 million in Glasgow. That fundamentally misunderstands the way in which debt servicing will be done. In Glasgow, £50 million of the £100 million a year that is needed to service the debt comes from the capital allocation that we give to the authority, with £50 million as additional debt servicing. If we were to attract private investment and decide to do it ourselves conventionally, the capital allocation would still have to go and the amount of debt servicing would have to double.

10:15

Alex Neil (Central Scotland) (SNP): I will pursue the issue of the comparison between the traditional way of funding housing borrowing, which is through the Public Works Loan Board, and the new way, under the new housing partnerships. Did I hear correctly in your previous answer that, with the Treasury, you had done some modelling to compare the long-term impact on capital and revenue of the two systems of funding?

Ms Alexander: No. We examined the value for money to the public purse of supporting debt servicing through the housing budget to reach an agreement on whether servicing debt was an appropriate way to use money that is available for housing.

Alex Neil: Has the Executive—by itself or with the Treasury—undertaken a comparison of the cost of the capital borrowed under the new housing partnership proposals with the long-term cost of borrowing capital through the Public Works Loan Board? Clearly, it was much more expensive to borrow directly from the private sector than it was to borrow through the Public Works Loan Board.

Ms Alexander: Scottish Homes has done that work, but let me answer your point, as this is fundamental to the issue. One difference with our position is that the value for money of any project is not assessed by considering only the cost of finance. Doing that ignores the cost and benefit of the project as a whole—the benefit of management expertise, whole-life costing and output-based contracts. Last week we debated financing and private finance initiatives. The implication of what you said then was that, if the cost of financing was slightly more, that proved your value for money case. The National Audit Office and others—Arthur Andersen carried out work on this recently—that have undertaken appraisals of value for money of whole projects demonstrate that savings under PFI can be considerable. It is inappropriate simply to use the cost of finance as the basis for comparison.

I draw your attention again to the Glasgow example. The cost of finance there has been considerably less, but we have to explain why there is a debt of £1,000 million and an asset that is worth less than £10,000 per unit despite the fact that £1,000 million was invested. That demonstrates that, in assessing value for money, the cost of finance is a limited part of the equation.

Alex Neil: I know that value for money is a wider concept than a comparison of the costs of borrowing, but two questions arise from your answer. First, it is clear that one reason for going down the new housing partnership route relates to the long-term public spending and borrowing implications of continuing with the status quo. I repeat my question: has any comparative analysis been done on the specific issue of the cost of borrowing as part of the value for money exercise?

Ms Alexander: Yes.

Alex Neil: If so, will you make that comparative analysis available to the committee?

Ms Alexander: Yes.

Alex Neil: Secondly, have you made a comparative analysis on the wider concept of the value for money of this proposal, taking into account all the other factors that you have mentioned? If so, will you provide that to the committee as well?

Ms Alexander: John Breslin will speak to the committee about the detail of the work that Scottish Homes has done.

Alex Neil: I am sorry to interrupt, but we asked Scottish Homes exactly the same question and were told that it had done no work.

Ms Alexander: I will let my official clarify that in a moment.

At issue is the assumption that public funding is always a cheaper option. It may be cheaper at fixed points in time. At the moment, Glasgow is paying the Public Works Loan Board an interest rate of 8 per cent. If Shettleston Housing Association borrowed to build new houses, it would repay the loan at a rate of 6.5 per cent.

You will say that that reflects differences in historic interest rates, which it does, but I do not want to say to the tenants of Glasgow that because of the current level of interest rates they cannot have £1 billion in investment over the next 10 years. We need to acknowledge that at the moment the Public Works Loan Board is charging local authorities in Scotland higher interest rates to meet historic interest than most of our housing associations are borrowing at for new investment.

Alex Neil: With all due respect, that misses the point.

Ms Alexander: What is the point?

Alex Neil: At issue is whether over the lifetime of these projects, 20 or 30 years, it is cheaper to borrow through the Public Works Loan Board or by the method that you are proposing. Last week we received evidence from consultants that, in their view, it would be significantly more expensive to borrow by the method that you are proposing.

Ms Alexander: How much more expensive?

Alex Neil: Significantly more expensive. They gave an estimate of up to 0.4 to 0.5 per cent, which over the period that we are talking about is a significant amount of public money. The point that I am making is that if the sums are wrong, we will be passing on to future generations the obligation to fund substantial and potentially unnecessary increases in interest, which means potentially unnecessary increases in rent levels. I am not putting forward a point of view. I am asking for information. You are telling me that the comparisons have been done. I am asking you to tell us what the conclusions are and to make the details available to the committee.

Ms Alexander: I will offer you one point of reassurance. You suggested that the cost of private borrowing is substantially higher—

Alex Neil: Significantly higher.

Ms Alexander: The Housing Corporation in England, which lends to housing associations on a consortium basis, is currently offering interest rates of less than 6 per cent—less than 1 per cent above the lending rate of the Public Works Loan Board. I do not agree that we will be ripped off by significant interest rate differentials, as the market for lending has become more competitive. The assessment that has to be made is not merely a cost of finance assessment, but I take the point that you make.

Alex Neil: Do not try to kid us.

Ms Alexander: I am not.

Alex Neil: If I go to the Halifax for a mortgage and then go to the Bradford & Bingley, I can get a differential rate. However, the important comparator is one extending over the period of the mortgage—say, 25 or 30 years—rather than the current differential. That is why I ask for the third time whether that comparative analysis been done and, if so, can you make it available to the committee?

Ms Alexander: I will clarify the point. The interest differential for borrowing now is less than 1 per cent. I am not prepared to predict what interest rates will be 20 years into the future. When people borrow, they can choose whether to have a fixed rate or a variable rate. There are a variety of options.

I want to return to the final point of difference. To suggest that cost of finance is the sole or appropriate way of assessing value for money—

Alex Neil: I have not said that.

The Convener: Minister, I think that we understand that. I shall allow John Breslin to speak, and we will try to get the information.

John Breslin: You are asking for a comparison between the current Public Works Loan Board rates and the current rates of the private sector. I have been working with Scottish Homes. I understood that Scottish Homes had made that information available to the committee.

The Convener: Information is available, but it is limited.

John Breslin: We will speak again to Scottish Homes. If what you have received is not adequate for your purposes, we will ensure that you receive such a comparison. However, it is difficult to say what that comparator will be over the next 30 years. It depends on whether the PWLB loan is taken on a fixed rate over 30 years or whether it is taken as 1 per cent over the London international bank offered rate.

We can provide an analysis of Scottish Homes' existing loan portfolio to housing associations as a comparator. However, we cannot predict what associations will do over the next 30 years. Through Scottish Homes, we ensure that they have a treasury management process, so that they take advantage of better rates. Much of the local authority borrowing was fixed for periods of 30 years, but it is not practical to give you a comparator over the next 30 years.

Alex Neil: Let me put the question in more basic terms. The minister mentioned that, when the business plans for stock transfer come in, you will have to assess them. Let us assume that the business plans are initially for a period of five years, which I imagine is realistic. Is that the case?

Ms Alexander: The business plans will be for 30 years.

Alex Neil: They are 30-year business plans. That emphasises my point even more. When you assess a business plan, you must make assumptions about the likely trend in interest rates and the likely requirement of rental stream to fund the borrowing, and about whether the funding that is obtained is variable or fixed over the period of time; it might be fixed over five years and be variable thereafter. When you set the criteria against which to assess and approve—or disapprove—those business plans, what assumptions, sensitivity analysis and comparators will you use to assess the viability of those business plans in respect of all the value-for-money considerations?

John Breslin: The housing policy people, the finance people and the economists in the department are working to finalise what that value-for-money appraisal will be. It is based on work that Scottish Homes already carries out through its appraisal system, and takes account of what the Department of the Environment, Transport and the Regions does.

There are three main points. First, an independent valuation will be obtained in advance. Councils will be expected to have an independent valuation of what the stock should fetch. Secondly, we will measure the value to the public purse, which will take account of the points that you have raised. Once that criterion has been finalised, we can make that available to the committee. Thirdly, we will assess the reasonableness of assumptions—for example, if someone said, "We are going to reduce our rents by 5 per cent", or "We are going to invest X amount of money". Those are the three main headings, but we can provide you with more detail.

Alex Neil: Evidence from Glasgow City Council suggested that there should be a rental guarantee of five years. Two weeks ago we received evidence about Ardler, where the rental guarantee is 15 years. Can you indicate the likely period of the rental guarantee and what that guarantee will be?

John Breslin: It varies from case to case. It generally tends to be a minimum of five years. That is not entirely within our gift; it is for the proposer, the person who buys the houses, to specify the sort of guarantees that they want. In the case of Scottish Homes, the rental guarantee tends to be between five and 10 years, and we would consider that in finalising our appraisal.

10:30

Mr Lloyd Quinan (West of Scotland) (SNP): Do you believe that new housing partnerships present challenges for anyone apart from your department? I am thinking of other Government departments, the Scottish Parliament, Whitehall, tenants, trade unions, housing professionals and the lenders.

Ms Alexander: This is a challenge for all of us.

Funders have a model for funding socially rented housing in housing associations. Importing that to the local authority sector, in the case of whole stock transfers, is certainly a challenge. It is a challenge for tenants, because if we want a tenant-led strategy, we want the decisions to be made by the community.

To pick up on the point that Alex Neil made, we have to ask what the appropriate length of time for the rent guarantee is, and at what level the rent should be. Those are the discussions that we want to have with tenants. Do we want a five-year guarantee? Do we want the rent increases tied to the retail prices index, or the retail prices index plus one? By how much will we speed up the repairs programme if we are bringing in more revenue? How much more extensive will that let the improvement programme be?

The biggest challenges are not to any of us here, but to the new organisations and, I hope, to their tenants, if they accept the vision of community ownership. The challenge to them is to sit down and talk about how they want to spend the new money that is being invested in their communities.

Mr Quinan: I have asked you this question on a number of occasions. You have promised investment in housing in Scotland, but that is predicated on stock transfer. In the event of a negative vote in a ballot, what is the Scottish Executive's plan B for investment in Scottish housing?

Ms Alexander: You may have asked me the question several times, but I do not know whether you have heard the answer. There are none so deaf as those who will not hear.

Mr Quinan: I have a collection of your answers and I read them occasionally. None of them makes sense.

Ms Alexander: As I say, we are increasing investment by 40 per cent more than the Tories had planned. Not all of that is new housing partnerships money. Much of it is Scottish Homes development money, and much of it will go on our largest ever energy programme. Money for the rough sleepers initiative is up by 40 per cent.

Mr Quinan: Yes, but what is plan B?

Ms Alexander: In the event of tenants saying no, as I have said, the capital allocations programme is not being cut in any way whatsoever. The capital allocations programme will continue for Glasgow as it does for all other councils. Because of the scale of the problems in Glasgow, Scottish Homes' activity there might step up. However, if the stock transfer goes ahead and there is £1,000 million of investment available over the next decade, Scottish Homes may take more of a back seat in Glasgow and look elsewhere. Glasgow is benefiting from a regeneration and development partnership. I recently visited Castlemilk where 500 houses—

Mr Quinan: We have wandered into the world of "if".

Ms Alexander: No—

Mr Quinan: Where will the housing investment come from if tenants in Glasgow, or in any of the areas where a stock transfer has been suggested, reject it in the ballot?

Ms Alexander: From capital allocations, as it does at the moment, from which not a ha'penny has been cut.

Mr Quinan: And the additional investment that you have promised?

John Breslin: If Glasgow does not vote for the transfer in the ballot, we will not need all or part of the £125 million for debt write-off, or the £46 million a year thereafter. The money that would have gone to support the debt write-off will be available for Scottish Homes investment or for the other elements of new housing partnerships. New housing partnerships money is funding new developments and regeneration; it is not all about stock transfers.

Ms Alexander: As I made clear in my memorandum, a large number of authorities want to consider whether stock transfer is appropriate for them.

Mr Quinan: You said that the emphasis is on developing sustainable housing for tenants. This committee has been petitioned by a large number of tenant organisations, which are considering this issue from various perspectives. We have heard from people who reject outright and on principle the concept of stock transfer; and we have heard from people who have been neutral on the issue. However, nearly all of them have said that they seek a moratorium. What is your response to that?

Ms Alexander: Seek a moratorium on what?

Mr Quinan: On stock transfer.

Ms Alexander: Which organisations want a moratorium on stock transfer?

Mr Quinan: Tenant organisations that have petitioned this committee and have given evidence in the seat in which you are sitting.

Ms Alexander: Using the £1 million that I am making available for tenant advisers, those organisations can lobby for a moratorium or a no vote.

Mr Quinan: Has the time scale for the procedure changed any?

Ms Alexander: What procedure?

Mr Quinan: The procedure to move towards a stock transfer ballot.

Ms Alexander: In respect of Scotland?

Mr Quinan: Scotland, Glasgow, any of the relevant areas.

Ms Alexander: In Scotland, the money for debt servicing is, in large part, assigned for the financial year beginning 2001. It was assumed that it would take until April next year for the seven authorities that are considering the matter to draw up their business plans and hold a ballot.

In Glasgow, the original feasibility study suggested that there might be an early ballot. The feeling of the steering committee is that tenants should be able to decide when there should be a ballot after publication of the framework. That is why there is no ballot date in the public domain for Glasgow. Some authorities have set target dates for ballots; others have not.

Mr Quinan: Given the fact that an enormous amount of money has been spent on feasibility studies, is it correct to say that you have a parallel strategy that has an equal level of investment of time, human resources and finance to deal with the situation if there should be a rejection of stock transfer?

Ms Alexander: I reject the suggestion that we have spent huge amounts of money on considering the stock transfer option. Less than £10 million has been spent in Glasgow so far and we hope to lever in around £1,000 million.

Mr Quinan: I withdraw the phrase “an enormous amount of money”.

Ms Alexander: We have spent 0.1 per cent of the total that is likely to be brought in, which is quite an efficient use of money.

Mr Quinan: Is there a parallel strategy to deal with the situation if the move to stock transfer is not approved? Is the same amount of resources being put into recognising that?

Ms Alexander: Yes. More than half the £330 million that has been spent on housing partnerships is not going on stock transfer but on the development and regeneration partnership. Last week, I opened the 100th house of the 500 housing partnership houses in Coatbridge. There are a further 400 in Castlemilk and 400 in Craigmillar.

It seems inappropriate to prejudge the decisions of tenants. We will wait until tenants have made up their minds. If they reject stock transfer, there are a variety of options. The funding can go to other authorities that are in the queue or into any of the other housing programmes.

Robert Brown (Glasgow) (LD): You have made a strong point about tenant empowerment but it must be recognised that there is a perception that the tenants are being left out and that things are being decided by you and the councillors in the traditional smoke-filled rooms. Do you accept that that perception will take a long time to change? Would it not have been better to devise mechanisms, however imperfect, that would involve tenant organisations in the discussions that have taken place?

Ms Alexander: There have been difficulties. We have met tenant groups through the Glasgow Citywide Tenants Forum. This week Frank McAveety met with an organisation that is opposed to stock transfer.

As I have said, we felt that the council and the Executive had to agree whether there was a basis for proceeding before we talked to the council tenants. The risk was that the Executive would have been talking to the tenants before establishing whether there was a way forward. We have to agree a framework. After that, the tenants would have a year or more to debate the matter. They have £1 million to spend on taking advice and so on.

As you say, it was not clear whether the feasibility study would deliver a basis for community ownership. There has been negotiation in suggesting to the council that community ownership could not be realised by one landlord, because that does not reflect the tenant-led proposition. We must try to reach agreement on that.

Robert Brown: I want to develop that point in relation to the role of housing associations. Across Scotland, housing associations have been a tremendous success in developing effective tenant representation. Do you see a major role for housing associations in taking on stock from councils and acting as receiving units?

Ms Alexander: Yes, if tenants in those communities look favourably on their local housing association and think that it has a contribution to make in managing the stock.

Robert Brown: Will the housing associations have the opportunity to be involved in taking on parcels of stock, subject to tenant agreement, or will there be a competitive arrangement involving a variety of different groups, perhaps including English housing associations?

Ms Alexander: Housing associations should be involved, where that is what tenants want. Glasgow tenants considering the matter are more likely to be attracted to the local, community-based housing association than an organisation that they have never seen or heard of before.

Robert Brown: I do not want to concentrate on Glasgow too much, but earlier we talked about new organisations that were not based on the specific expertise of current structures, such as federations or completely new groups. Do you accept that that might create problems, because of the time that it would take to set up such groups? It might take a couple of years to get an effective housing association going, training people and so on. Do you recognise such difficulties?

Ms Alexander: Yes. Robert has touched on some of the real challenges that we face and with which the committee must be struggling. I look forward to hearing the committee's views on that. The problem that has taken up the most time in the past year is that if we want to deal with all the debt, there can only be one ballot if it is to be a whole stock transfer. That one ballot has to pass the stock, in the first instance, to one landlord. We cannot have one ballot to pass the stock to a multiplicity of landlords. If we want to deal with all the debt, there must be one ballot and one landlord.

However, if we want to realise a plural vision of community ownership, including housing associations, tenant management co-operatives and new groups, we must find a way to move from one landlord to a multiplicity of landlords. How we do that in a relatively short time, ensuring that tenants feel that they are making the decision and getting on with the step change in investment, is at the heart of what we have been doing. We welcome the thoughts of the committee on how to move from one landlord to many landlords, characterised by tenant leadership and choice.

Robert Brown: Would it be fair to say that you are putting a self-imposed chain round your neck by defining the circumstances under which a transfer can take place? If there were a political will to do so, you could produce mechanisms for proper valuations, which would enable some sort of equity to be achieved in proposals for direct transfer to community groups.

What pattern of organisations do you predict will result? Will housing associations grow bigger? Will new organisations emerge? What is the optimum size of organisations? Do you envisage differences between traditional community-based housing associations and the new social landlords that may emerge from this process?

10:45

Ms Alexander: What do you mean by political restrictions?

Robert Brown: You are defining a single stock transfer and saying that it is not possible to devise mechanisms under which housing could be transferred in smaller parts to landlords. I suggest that that is not the case and that the limitation is self-imposed.

Ms Alexander: If one allows people to cherry pick, one does not deal with the debt.

Robert Brown: Unless properties are valued properly.

Ms Alexander: Then we would risk certain communities saying no and others yes, and the Glasgow debt problem would never be addressed.

The only condition was that the entire debt should be dealt with and there should not be residualised communities. Of course, the most difficult housing to finance is the worst stock. Because of the history in Glasgow, the risk of allowing areas such as Mosspark to be cherry-picked was that the worst stock would be left; communities there could not finance themselves and a smaller number of tenants would be carrying an even larger debt burden. The only way to deal with the debt and prevent residualisation of the most marginalised communities was to have a whole stock transfer to take advantage of the opportunity for cross-subsidy.

Once it has been decided to deal with the whole of the stock, there has to be a single ballot. We cannot have 10 ballots if we want to move the whole of the city's stock to one receiving landlord.

The challenge lies in how quickly management can be moved down. The solution to which we are moving is that, in the first instance, stock should be managed locally—repairs, services, local decisions about how the investment should be spent. There is no point in forcing ownership on brand new organisations. A pattern is emerging of dealing with the debt through a whole stock transfer and moving management and decisions about investment down. If a community wants ownership, it can move towards that.

A plethora of organisations will be involved; some will be current social landowners such as community-based housing associations, and some will be new local housing associations such as tenant management co-operatives that take on the management of more stock. John McAllion often makes the point that no housing association manages directly more than about 2,500 units—when units that are factored are included, that figure rises to about 4,000. We envisage that a variety of landlords will emerge.

Robert Brown: The sample that we have taken of what will happen in practice has been uninspiring and seems not to take advantage of the existing expertise in housing associations and tenant co-operatives.

What do you predict the end result will be, a year or two down the line? What is likely to be the optimum size of the bodies that will be the ultimate receptacle of the tenant ownership arrangement?

Ms Alexander: I am reluctant to specify the optimum size of unit; the tenants should determine that. The optimum size of the body for the management of multi-storey flats may be different from that for Mosspark or Possil. I almost said Easterhouse, but I thought that Margaret Curran's part of the world had been cited too often.

We want a city that is characterised by a much higher level of community ownership. Housing associations will manage much larger parts of stock. Tenant management co-operatives will become ownership vehicles rather than simply management vehicles, and there will be many more of them. Additionally, neighbourhood housing officers will take a hands-on approach to local management. Not only the ownership, but the local management of the repairs services will be different—somebody else may want to take up that point later. There will be a much more locally responsive pattern of housing management.

Robert Brown: Some of my colleagues will pick up on the details of that. We have been down that road before, certainly in Glasgow, and have heard such promises in the past.

I have two further questions, the first of which relates to management and the ability to access funds. One of the organisations that gave evidence was the Council of Mortgage Lenders, or a body of that sort; it said that it made the test by lending to the entities that run businesses. In other words, it is interested in the quality of management, the track record, and so forth. That is why housing associations and other existing bodies are so attractive—they have a track record and we know where they stand. Do you have any concerns over whether the many new bodies will be able to provide the security that lenders are looking for, in terms of the reduction of risk and so on?

Ms Alexander: I agree wholeheartedly about the comfort that lenders derive from the quality of management in the housing association sector. That is why we think that all the landlord bodies should be registered with Scottish Homes as social landlords. We should look to Scottish Homes to fulfil that regulatory role, which gives security to the lenders and helps to manage the finance issues that Alex Neil rightly raised. A public body should carry out the regulation, to avoid the risks that are associated with landlords being unregulated in the private sector.

You are also right to say that those areas that have known localised housing management are more likely to move more quickly to full ownership. The important thing is to create a spectrum of opportunities for tenants to move at their own pace.

Robert Brown: My final question relates to the right to buy. How will the right to buy, which you propose under the single social tenancy, affect the viability of the new landlords? I am talking about the risk element—another feature that will affect the rental stream and will have to be paid for, perhaps through higher loan charges, or something of that sort. There may be problems with the enthusiasm of volunteers, when they see themselves, in effect, acting as a vehicle for creating private ownership, which is not why they entered into it in the first place. How does that fit into the concept of what you want to do with stock transfer?

Ms Alexander: The extension of the right to buy affects the 43,000 assured housing association tenants who are not part of the stock transfer directly.

Robert Brown: It will also affect people who do not buy at the moment because their houses are not worth buying. When those houses have been improved, there will be a vast increase in the number of people who are interested in buying under the existing arrangement.

Ms Alexander: All council tenants would have had a preserved right to buy anyway, whether or not the single social tenancy was there. From day one, lenders have factored that into their consideration. All our transfers of Scottish Homes stock have been conducted on the basis of a preserved right to buy. In many ways, that is the familiar lending environment.

Robert Brown: With respect, that is not the point. It is not the existing tenants, but the new tenants—who will get tenancies later on in increasing numbers—who will face a new situation because of the way in which the single social tenancy affects them. That is the point.

Ms Alexander: There are 70,000 tenants at the moment. We are talking about the new tenancies that will be introduced. Of course, if the property has been done up recently, the "cost for" rule will operate for 10 years. One third of housing association tenants have the right to buy at the moment, so I do not have strong fears on that score.

John Breslin: We know that the right to buy will extend to new tenants, as well as existing tenants. Lenders and bidders will have to factor that in, just as they had to factor in the preserved right to buy. We will all have to face up to that.

Robert Brown: Will it affect the cost of borrowing?

John Breslin: From our discussions, I do not think that the Council of Mortgage Lenders is saying that that will make borrowing more expensive. If houses were to be transferred now, done up over 10 years and then sold to Mrs Smith, the effect would be broadly neutral in numerical terms. In some areas, it would be financially beneficial to sell houses under the right to buy, because the right-to-buy value would be greater than the value of the rent if the house were kept for 30 years. Lenders accept that the right to buy is a factor, but they are not saying that it will make the scheme so expensive that it will not work.

The Convener: We must move on. I should make it clear that there will be a set of questions on Glasgow, in which we will try to unravel the details of the proposal for that city. However, this is a Scotland-wide inquiry, so we need to consider Scotland-wide issues as well.

Fiona Hyslop (Lothians) (SNP): Obviously, the financial issues are key. We understand that the cost of debt servicing for the seven lead authorities is estimated at £46 million. That is net of the housing revenue account. If the cost is to be £100 million over 40 years, future Governments may face a debt-servicing commitment of £4 billion.

Ms Alexander: That is assuming total stock transfer.

Fiona Hyslop: I am talking about what would happen in your scenario of all seven authorities transferring completely. I understand that the figure of £46 million is contained in your advisory group's notes. What guarantee do you have that debt servicing, as distinct from the servicing of written-off debt, will continue under future Administrations?

Ms Alexander: Parliamentary Government does not allow Governments to bind their successors on public spending. In the same way that a Government could end all capital allocations to local authorities, it would be feasible for it to take a different view of debt servicing. I regard that as unlikely.

Fiona Hyslop: If a future Scottish Executive were to decide that it wanted to invest its resources in "education, education, education" or "health, health, health", could it withdraw debt servicing from Glasgow City Council, Aberdeen City Council and Dumfries and Galloway Council, leaving not the rent payers but the council tax payers of those areas responsible for the debt?

John Breslin: The arrangements for debt servicing have to be worked out in detail with councils, but my understanding is that there would be a contract between the council and the Scottish Executive. In theory at least, the Scottish Executive could take the debt from the council—that is what councils would want to happen. Councils would say that that is the only way of providing them with the assurance that debt servicing will not be withdrawn in future. We need to examine the mechanics of that.

Debt servicing arrangements will tend to vary, depending on the make-up of individual councils' debt. Glasgow City Council's debt stretches for 33 years, for example. Other councils, such as North Lanarkshire Council, have debt that stretches for only 14 years, so we can adopt a different approach. We are very conscious of the point that Fiona Hyslop makes, as are councils—they will not sign up to a pig in a poke. This is a technical issue that we will have to sort out, but it is not a new issue.

We have had discussions with several councils about the make-up of their existing loan portfolio, the assurances they would seek, and the assurances we could give.

11:00

Fiona Hyslop: You are talking about £4 billion over 40 years and future Scottish Parliaments. On the one hand, you cannot bind the hands of future Administrations; on the other, you are saying that we might have contracts. That key issue must be resolved.

John Breslin: We are not talking about £4 billion. If all the houses were sold, the receipt would be £2 billion, so there would be a net debt of £2 billion.

Fiona Hyslop: Let us move on to that, then. Are you aware that breakage costs could add another £1 billion on to that, and that the transaction costs for transfers could amount to £500 a house, thereby adding another £300 million to the bill?

John Breslin: I am aware of the breakage costs; I am also aware that they do not have to be paid immediately. Breakage is a much used word. Breakage costs mean that all the interest that would have been paid over the period of the loan is paid on the day that the loan is repaid. We have spoken to the councils and the Public Works Loan Board about the possibility of spreading those breakage costs. They do not have to be paid on day one. We understand that transaction costs are another matter.

Fiona Hyslop: I appreciate the technical advice that is being given by Mr Breslin, but I would like to ask the minister why the Executive is treating wholesale and partial transfers differently. I have a letter from Mr Breslin to Fife Council, from January this year, which talks about the differences for partial stock transfers. He says that, in such cases, the commitment would be given only for five years. He then says:

> "We would also expect the stock involved to be transferred before any improvement work is carried out in order to provide the necessary incentive to tenants to vote for transfer."

The message is, "Do not invest now; wait until the ballot." Is not that an obvious case of pushing tenants to vote for transfer because it is the only way in which investment will be secured? Is it not a situation in which there might be accusations of blackmail?

Ms Alexander: No. The danger with partial stock transfer is that councils will try to make us take on the worst parts of their stock and lift the worst part of their debt burden without them having to deal with the totality of the investment in their areas. As you have pointed out, if our challenge is to deal with a shortfall of £2 billion between the tenanted market value of the stock and the size of the debt overhang, it is important for the public purse that we ensure efficiency in the way in which we service the debt. The danger of taking on partial stock transfer is that councils try to load more of the debt on to us without dealing with the worst parts of their stock.

Fiona Hyslop: Therefore, partial stock transfer is really just part of the process of wholesale stock transfer. There is no such thing as partial stock transfer in itself.

Ms Alexander: No, it exists. However, when councils proceed with partial transfer, they cannot expect an open-ended guarantee for debt that cannot be demonstrated to be attributable to those houses.

Fiona Hyslop: Let us move on. Thank you for the policy memorandum. In part 8 of that memorandum, you say that you do not want simply to lift the debt burden of councils, and that that is not the ideal option. Obviously, it is an option, but from your point of view it is not the ideal option. Let us return to the reasons that you gave as to why a council—in Glasgow or wherever—cannot self-finance. The Government would service the debt, and there would be a rental stream whereby authorities could finance the same level of investment themselves.

Ms Alexander: Do you think that they could finance the same level of investment?

Fiona Hyslop: That argument has been put to the committee in evidence. From its rental income stream, Glasgow City Council could generate £120 million over 10 years. However, I do not want to focus on Glasgow; it is the principle that I want to explore.

Earlier, you said that you have not cut the allocations. You argued that it was a good thing that you had not cut the allocations. Surely the HRA allocation is meant to be borrowing for new investment, and the housing support grant is to deal with debt servicing. Only two councils—the island councils—are receiving the housing support grant. You implied that half the current HRA allocation is used for debt servicing and going nowhere near new investment. It is therefore very difficult for councils to invest and use their allocations for new borrowing if they are using half of it to service existing debt. If the Government services the debt, why can councils not use the rental income stream to lever in the same amount of finance that is possible through the new housing partnership?

Ms Alexander: They can; it just takes more than twice as long. If £120 million a year was available, it would take the councils 10 years, if that estimate was accurate. It also misses the fact that if properties remain owned by the council, I presume that the council would want to have available the capital allocations money. In the circumstance of a wholesale stock transfer, if there is no council, there will be no council capital allocation, so that money is clearly available and there is no reason for us to give it to the council.

Let me give you the figures. At the moment, £50 million a year goes to Glasgow City Council as capital allocation. If the council is to service its debt at £100 million, it will need that £50 million in capital allocation, and we will need to provide £50 million a year in perpetuity to service that debt. That means that £100 million of public money is going towards servicing the debt, and against its rental stream, the council can borrow in excess of £1 billion. If the council does not go off the balance sheets, the only additional sum that would be available to it would be the rental stream, which would still not provide enough to service the entire debt; the capital allocation would have to go to that, and the amount that would be available to the council would be relatively small.

Could it be done by that means? Yes, but we must look people in the eye and say that we think that it is more appropriate, for the taxpayers of the whole of Scotland, for us to lift that burden from 80,000 tenants and bring in new investment to achieve a step change as quickly as we reasonably can, rather than ask those people to wait and get in the queue for public investment.

Fiona Hyslop: If the debt is lifted, councils could still have the opportunity to borrow at the same levels; that would keep the borrowing requirement the same, as dictated by the Treasury.

Ms Alexander: No, the councils would not borrow at the same level. It would count against the public sector borrowing requirement and, as £100 million would already have been invested in debt servicing, the call would have been raised on public expenditure. Do you understand that, Fiona? There would be the £100 million of debt servicing plus the £50 million capital allocation, so the net borrowing from the Government would have been increased.

Fiona Hyslop: That is an interesting answer.

Let me ask you a very simple question. Why are you making the debt solution dependent on the stock transfer ballot? Why are they linked? Why can you not deal with those issues separately?

Ms Alexander: Because there is a real risk of residualisation and cherry picking. We could ask Glasgow City Council to choose which parts of the stock it was going to deal with, but lenders would not lend on the worst part of the stock, which might require £20,000 or £30,000 to be spent on each unit to bring it up to standard. Given that the rental stream is the same whether the house is in Mosspark or Easterhouse, they will say that the unit of stock that they are prepared to lend on is in Mosspark, as the investment that is needed to bring that up to standard is just in windows and doors. In Easterhouse, an entire rehab might be necessary that will cost £30,000, although there is only the same rental stream available to service it. We will end up with worse residualisation of the stock unless we conduct a wholesale stock transfer.

Fiona Hyslop: You are obviously leaving it to the council to decide in the case of partial transfers. I have some final questions that I want to ask. Why are you choosing to service the councils' debt rather than to transfer it or write it off?

Ms Alexander: Sorry?

Fiona Hyslop: Why are you choosing to service the debt rather than transfer it to the Government? Is that your choice, or is it dictated by the Treasury in London?

Ms Alexander: No. We have said that we are going to service the debt in its entirety partly because there are different profiles of debt, and different arrangements for debt. In some authorities, for example, the receipt will pay off the whole of the debt; in other authorities, the receipt will pay off only part of the debt. We see no reason to centralise all that, given that arrangements will be made authority by authority, based on the business plans that they draw up. We do not recognise any net advantage in centralising it all.

Fiona Hyslop: Apart from in the case of council tax payers, who might face the burden of future years.

Ms Alexander: Those are the same council tax payers who are having to pick it up at the moment anyway—they are one and the same group of people.

Fiona Hyslop: I think that there is an issue of accountability, responsibility and democracy there.

I want to ask about Scottish Homes. At an earlier committee meeting, concerns were expressed that £20 million would have to be built into its budget for servicing future costs because of what happened under the Tory Administration and because of the management of Scottish Homes. What other services would suffer as a result of that? What impact would that have on council or housing association resources?

Ms Alexander: I am sorry, but I am not clear about the question.

Fiona Hyslop: When Scottish Homes ceases to be a quango, is taken over and becomes an Executive agency, the Executive will have to service Scottish Homes' outstanding debt. I understand that we will receive evidence on how that will happen. That will have a knock-on effect, which means that other people will not get resources. How will the servicing of the debt be financed?

Ms Alexander: We service the Scottish Homes debt at the moment—we will in the future. As Scottish Homes has transferred its houses to housing associations—as has been done over a period of 10 years—the debt has not transferred with those houses.

That is partly why Scottish Homes has been able to go ahead and have debt-financed investment. The debt has remained with Scottish Homes, which is part of the public sector, and the debt is currently serviced by the Executive. The residual debt will be serviced by us in the future. In many ways, the whole stock transfer process is extending to council house tenants the privileges from which Scottish Homes tenants have benefited as they have transferred to housing associations.

There is no net increase in servicing costs to the Scottish Executive. We pick up the debt at the moment. It is reduced all the time through receipts from sales. It will continue to reduce; there will be a residual debt, and we will service it when Scottish Homes is no longer a quango, as we do at the moment.

John Breslin: I would like to respond to the point about my letter to Fife Council. Rather than blackmail, the purpose behind that letter was to say that, if we are to transfer houses to community ownership, it does not make sense that the council makes all the investment first and then tells tenants that they can decide what they want to do.

The purpose of my letter was to tell the council that if it was transferring houses to community ownership, it should let the community decide on the investment.

Fiona Hyslop: Keep the money back and the tenants find that the work is not done sooner.

John Breslin: That was not my intention.

The Convener: Let us move on. We will now cover value for money.

Cathie Craigie (Cumbernauld and Kilsyth) (Lab): Good morning, minister. You said in answer to a previous question—and perhaps even mentioned it in your introductory remarks—that value for money was not just to do with consideration of costs.

The committee has been taking evidence on this, and will continue to consider it over the next few weeks. Some people feel that value for money means getting the maximum receipt from the local authority. It might seem that that is all that the Government is interested in. That would put upward pressure on rents, and would leave less money to be spent on improvements, especially in the early years.

Ms Alexander: It is simply not true to say that the only thing that we are interested in is maximising the receipt. We will judge each business plan as it reaches us. Clearly, a balance has to be struck in assessment. The larger the receipt, the less money one has to pay for debt servicing. On the other hand, if we were just interested in receipt maximisation, we would not be encouraging councils to become involved in discussions around rent guarantees, for example. A judgment will have to reached as to whether the receipt is reasonable, leaving a manageable amount of debt. The package offered to tenants should also be fundable and the level of rent and other aspects of that package should not be too onerous to them.

Cathie Craigie: The valuations and rental stream are important when establishing what will be offered for the stock. If there is a dispute over the value of the stock, does the Scottish Executive have its own valuers? How does the Executive enter into negotiations with the bidding organisation?

Ms Alexander: We expect all stock transfer authorities to have an independent valuer for their business plan. We will also make an independent assessment, so that there will be at least two independent valuations as part of the process—the one in the business plan and the one undertaken by the department as part of the assessment of the business plan.

11:15

Cathie Craigie: It has been suggested that rents are being pushed up as we move towards stock transfer. Is that happening or do you foresee that it will? There is still the feeling that rents have been pushed up to make the figures balance.

Ms Alexander: The facts contradict that idea. From 1983 until last year, rents in Glasgow increased in real terms by 131 per cent, which equates to a real-terms increase of between 4 and 5 per cent each year. In the past two years, rent increases have been well below average, at 2.9 per cent one year and 3 per cent the next—way below the level of increase over the past 20 years.

Cathie Craigie: The National Audit Office becomes Audit Scotland next week. It has been confirmed that there will be routine checks on Scottish Homes transfers to establish whether the highest price was achieved and, if it was not, whether there were reasonable grounds for accepting a lower price. That adds to the speculation that the purpose of stock transfer is to achieve the highest price. What is your response?

Ms Alexander: I am open to advice from the committee on the appropriate role for Audit Scotland in this area. How do we balance our responsibility to the Scottish taxpayer? The receipt must be reasonable so that the taxpayer is not picking up the tab unnecessarily, but the receipt that is realised must not be so large that it prejudices the ability to carry out repairs and improvement programmes. Those are technical matters, but they are appropriate matters for political judgment. I genuinely welcome the committee's views.

Many committee members have alluded to anxieties about delays and have asked what will happen, and when. Our judgment is that we must keep the process moving, because tenants want to be involved in the process. However, that does not imply that the i's have been dotted and the t's crossed. There are still difficult issues about the approach that we take in evaluating the business plans, such as the extent to which we call on third parties—valuers, Audit Scotland or others. We welcome the committee's continuing interest in that.

John Breslin: One of the department's letters on debt servicing said that we would expect councils to maximise the level of receipts. The fear of the committee is that that means getting the highest total price. However, one must take account of the various factors that contribute to the value of the receipt, such as rent and investment levels. As the minister said, transfer authorities have put the rents up by the rate of inflation plus 1 per cent, on average. In Scotland as a whole, rents for council properties have gone up by the rate of inflation plus 4 per cent over the past 15 years. Transfers have led to less of an increase than there would have been if the properties had stayed in council ownership.

One of the areas that councils will consider is value for money to the public purse. From a technical point of view, putting up rents does not always represent the best value to the public purse. On the surface, one would think that, if rents were put up by the rate of inflation plus 2 per cent, rather than by the rate of inflation plus 1 per cent, one would get better value. However, because of the impact on housing benefit, that is not the case. The Executive is not seeking to drive up rents through transfers. In fact, we want entirely the opposite; we want to stop rents from spiralling.

Cathie Craigie: The National Audit Office has confirmed that it will scrutinise transfers to ensure that procedures have been duly followed. I do not know how it would do so as no guidelines have been tabled or agreed. When do we expect to have the procedures for local authorities to follow?

John Breslin: You will have heard this answer before. The procedures are in the process of being finalised. It will be weeks yet. We had to take account of the discussions that the Executive has been having about Glasgow and other authorities in the past few months. There would be no point in putting out a set of procedures that did not take account of the Executive's position.

We have held discussions on the procedures with bodies such as CML, councils, the Chartered Institute of Housing in Scotland and others. The guidelines are in final-draft form, but they are not yet subject to the minister's approval. That is because we have not sent them to her.

Cathie Craigie: I take it that you are learning from the experiences that you are going through just now, minister.

Ms Alexander: There must be a balance in the guidelines between prescription on what we want and negotiation at the end of the business plan process.

To ensure that tenants are not disappointed, we think that it is better to err towards more prescriptive guidelines at the margins so that councils cannot tell us that they were not informed of requirements. It is a fine balance.

Cathie Craigie: John, you said that the transfer represented value for money for the public purse, not only because of issues relating to rents and repairs, but because of the levels of housing benefit. What are the implications of stock transfer for housing benefit? Have you discussed that with the Department of Social Security?

John Breslin: There have been discussions with the DSS about the value-for-money implications of transfer. The implications for housing benefit will depend on the level of rent increase.

Cathie Craigie: I take it that you are aware of that just now and are bearing it in mind.

John Breslin: That is correct.

The Convener: We might pick up on some of those broader issues later, but we will refer to matters relating to Glasgow now.

Bill Aitken (Glasgow) (Con): Minister, do you agree that the community-based housing association concept has been successful? Why do you think so?

Ms Alexander: I think that it has been hugely successful for the reasons that John Breslin and others have touched upon. It has been tenant-led, it has been able to access significant private investment and there was significant political commitment on behalf of many people to make it work. The model is now well established.

Bill Aitken: The tenants' input has been highly satisfactory. Do you agree that one of the major reasons for that has been the ability of tenants to be able to associate what they are doing with their community?

Ms Alexander: Yes. That is a feature not only of housing associations, but of tenant-management co-operatives. The notion of tenant-led, locally responsive services and management has been a major factor in the success of the initiative.

Bill Aitken: Is your preferred option that Glasgow should have a number of small community-based associations?

Ms Alexander: My preferred option is for Glasgow to have a number of community-based landlords, who will increasingly be registered social landlords. Whether they take the form of a housing association or a tenant-management co-operative is less important than the right to manage and decide on investment locally and, ultimately, the right to own.

Bill Aitken: You have highlighted the reasons why you believe that it is not possible to arrive at that position at stage 1. I would like to examine your thinking on that more deeply. You have stated that there will be the risk of cherry picking—that is, the East Possil association would probably be less acceptable than the Knightswood association. Have you taken figures from Glasgow City Council and looked at the number of houses that are in council ownership in various parts of Glasgow?

Ms Alexander: I have been in discussions about the major demand survey that is being carried out in the city, which was commissioned by the University of Glasgow. The council expects to receive that report shortly. There has been some coverage in the press about the contents of the report, such as the changing profile of demand and household composition in the future. I am anxious to see that report published and in the public domain when tenants are sitting down to discuss the future for their areas, because they should be informed.

One of the astonishing things to come out of this exercise is an awareness of the number of single-person households and of how few families see their future in socially rented housing, but that such housing is an increasingly attractive option for single people and people who are mobile. I hope that the survey will be in the public domain during the year in which local communities are drawing up business plans.

Bill Aitken: Are you aware of the absolute figures and the percentages for the take-up of the right to buy under the Tenants' Rights, Etc (Scotland) Act 1980 in Mosspark, Knightswood and so on?

Ms Alexander: I have looked at the aggregate figures for the city as a whole and for some of the communities therein.

Bill Aitken: My point is that perhaps the difficulty with cherry picking that you envisage is not as significant as you think, because when I drive round places such as Mosspark and Knightswood, it strikes me that not many council-owned houses are left there.

Ms Alexander: The significant point with respect to Glasgow is that if you compare 1979 with today, there are only 10 per cent fewer socially rented houses within the city boundary. That implies that the growth in the community-based housing association movement, and in the housing association sector as a whole, has largely replaced sales in Glasgow. Interestingly, that pattern is not repeated all over the country. Today, there is 90 per cent of the socially rented housing that there was 20 years ago, but the landlords are different. Rather than the landlord being the council, there are other socially renting landlords.

Bill Aitken: As I recall, in 1979 there were 178,000 council houses in Glasgow. We are now down to around 86,000. The houses that have been taken over by housing associations have largely been from outwith the council sector, so while I accept that there has been some transfer, it is not significant. I do not think that in the Mossparks and the Knightswoods there are many council houses left, and as such the cherry-picking problem is not nearly as significant as you think.

Ms Alexander: There are two issues here. The one about cherry-picking concerns the danger that, if we do not go for a whole stock transfer, the stock that does not need much repair and maintenance will be attractive to financiers, and the stock that requires more work will not be so attractive. For example, if the one quarter of the stock that is multi-storey flats was left on its own, the risks that are associated with the structural work that is required could mean that the tenants would face a bleak future.

On the impact on the city of right to buy, I do not deny that in some areas right to buy was more concentrated than in others, but the story for Glasgow as a whole is that more than half the housing is still socially rented, and that the number of socially rented houses relative to other sectors has changed less in Glasgow than in every other local authority area in Scotland. That is partly because a large number of socially rented houses are provided by landlords who have been able to invest. The challenge for us concerns the quality of the remainder of the socially rented stock

11:30

Bill Aitken: I take your point about the multi-storeys and so on. That is a real problem.

What you and I seek to achieve is for small, locally based associations to control the houses. There could be a case for seeking to expedite the process. By doing it in a oner, for want of a better word, there is also an advantage, as everything would come on stream simultaneously. However, when the mortgage lenders gave evidence to the committee a couple of months ago, they doubted whether the funding and finance would be there for the massive project that we envisage.

Ms Alexander: We are suggesting that we do this in a oner in the sense that we go to a single landlord in the first instance, but the important point is that people do not believe that that is the end of the story. If tenants want to move towards local management and control, they have that opportunity over an agreed time scale.

Bill Aitken: Have you thought about breaking the process down into, say, 10 transfers?

Ms Alexander: If you have a single question in the ballot—yes or no to transfer—you cannot use it to transfer people to 12 different organisations. I have had extensive legal advice on that.

You are asking me to deal with all Glasgow's debt, but also to allow, on day 1, people to choose to move to Glasgow north-west, Glasgow south-west or Glasgow south-east, for example. Legally, we cannot hold one ballot question to move people to a variety of different landlords—that would be judicially challengeable. Not only have people said that they would raise the challenge, but the advice that I have received is that that challenge would succeed; the legal position is that, if you want to deal with the debt in a oner, people have to say yes or no to transfer, not yes to transfer to Glasgow north-east, yes to transfer to Glasgow south-east, or yes or no to moving to a new landlord. I may wish that it was not thus, but sadly it is.

Bill Aitken: I have a terrible feeling of déjà vu from when I questioned Conservative ministers. You are in government, so you could introduce provisions to the housing bill to change that.

Ms Alexander: I have considered that option, but if the ballot question said, "Do you want to move to Glasgow north-west?" for example, people could say no and we would not have dealt with the debt problem. We have to start by asking question 1, "Do you want to move to a new landlord, at which point the taxpayers of Scotland will lift the entire debt burden of the city?" There has to be a yes or no answer.

There is then a second question, which would enable someone to say, "I would rather go to Glasgow north-west and after that I would rather go to a housing association in Summerston." Those would be legitimate questions, but we could not fudge the matter by pretending that we had asked the first question when we had not. We must ask the first question, "Do you want your landlord to change and the debt to be dealt with?" There is then a second issue about whether someone wants to be managed by a certain landlord and whether they want to transfer ownership.

You asked whether a ballot was needed to enable people to move to an area. A ballot is needed if we are transferring ownership. The interesting question that you raise is how, within the Glasgow scenario, we create the space for a discussion about a certain part of the city and investment in that part of the city. A subsequent ballot—so-called second stage transfers—takes place only when people want to transfer ownership of their houses. There is every reason to decentralise management as soon as people have transferred to a large landlord. That is very much the nature of what we hope tenants will be discussing in the next year.

Bill Aitken: This will be my final question, because I know that other members want to ask about Glasgow. Do you agree that the process has not been handled entirely happily? We have received persistent and consistent complaints from tenants associations that the degree of dialogue has been restricted. Unless the Executive and the council get their act together on consultation—I speak as one who is generally supportive of what you are trying to do—you will not get the answer that you seek in the ballot.

Ms Alexander: More than anybody, members of the committee have a sense of the complexity of this issue, as they have been struggling with it for three months. It is a difficult balance to strike to decide when there is enough agreement on a framework to be able to pass the matter to the tenants—to give them £1 million and let them consult. It would have been most dishonest to tell 90,000 tenants to talk about transfer because a feasibility study showed that there might be a funder out there, even though we had no idea of how the transfer would deliver community ownership or what the ownership structures would be—it would not be fair politics to do that. The study that we had in April last year said that the biggest deal on debt in Scotland was potentially fundable, but it said no more than that.

I do not think that the process has been perfect, but there is almost enough agreement about broad parameters to allow us to pass the matter to the tenants to work out whether there is an acceptable business plan. We have talked to the funders and know the parameters within which the funders will operate. We have a sense of what the unions feel is acceptable and have evidence from tenants that they want to play some role locally.

Mike Watson (Glasgow Cathcart) (Lab): The question of housing stock transfer in Glasgow has being going on since October 1998. I am sure that you will sympathise with tenants groups that say that they still do not have clear details. The Glasgow Citywide Tenants Forum expressed that view clearly when it gave evidence to the committee two weeks ago.

I will ask about the figures. It is important that, when people make a decision, they fully understand the implications of transfer. It was helpful that, in response to Lloyd Quinan's question about so-called plan B, you set out clearly what would happen if tenants in Glasgow opted against stock transfer. I value that explanation, as it is far clearer than anything else that I have heard. Your paper talks about Glasgow's debt of £900 million. Was that figure taken at the start of the process, in October 1998, or when the steering group began its considerations? Is it the figure now? What do you expect the figure will be if the process is completed and transfer occurs in April 2002? Perhaps John Breslin should answer those questions.

John Breslin: In October 1998, the figure that we were using was £920 million. The most recent figure that we have received from Glasgow is around £870 million. It can be seen that £900 million is a round figure.

Mike Watson: Have you projected the figure two years forward?

John Breslin: We have not projected the figure two years forward, because to an extent the amount will depend on such things as demolition.

Mike Watson: The figure seems to waver.

The stock is said to be worth about £100 million. What is that figure likely to be in two years? Obviously, that amount has to offset the debt.

Ms Alexander: One reason why it has been difficult to present anything to tenants is that the estimates of receipt have varied from £17 million to £227 million—that is the scale of the variation in estimates. The stock condition survey, which we expect to receive in the next month, will provide greater clarity and we hope that it will narrow the spectrum of valuations. However, the valuation will continue to vary until the business plan is prepared. Indeed, the receipt figure will vary, perhaps because the funding organisations will have different views on what it should include. However, after the stock condition survey, there will be less variation in the figures.

Mike Watson: The final figure is important, because it has an impact on public sector borrowing. If the Scottish Executive takes on the debt, and the debt is £800 million or £900 million, what effect will that have on public borrowing in general? What might it mean for Scottish public spending as a whole?

Ms Alexander: Fiona Hyslop alluded to the NHP minutes, which make clear how much money we have set aside to service Glasgow's debt, should it proceed with stock transfer. I believe that we have set aside enough money for that, not least because, if money is available for the financial year 2001-02 and a decision is taken some months after that, the servicing resource available will be increased incrementally.

Mike Watson: Over what period will the set-aside have to extend for the debt to be repaid?

John Breslin: The payment will be made for up to a maximum of 30 years. One of the benefits of this approach is that, each time one of Glasgow's loans is paid off, a new one is not taken on.

Mike Watson: It is a receding sum.

John Breslin: Yes.

Mike Watson: I take that point.

I want to move on to what has been termed community empowerment. When the Glasgow Citywide Tenants Forum gave evidence to us, it was quite clear that it felt disfranchised and excluded from the process—not just because it had not been given details, but because it did not have the resources that would enable it to participate meaningfully in the process. You said that £1 million is to be made available in Glasgow to ensure that tenants organisations can respond once a framework document is published. Is that correct?

Ms Alexander *indicated agreement.*

Mike Watson: That money will cover the year following the publication of the framework document, but what arrangements will be made to ensure tenant participation if the stock remains within local authority control? Should there not be a facility that would provide local tenants organisations with the resources to participate fully in the management of their homes?

Ms Alexander: I agree whole-heartedly. We expect that, when business plans are being drawn up, tenants will specify the ways in which they want to be consulted in the future. At the moment, we have neighbourhood forums. If we move towards a situation in which ever larger numbers of tenants are managing their houses and others are going on to own their houses, things will change. Local housing associations do not have neighbourhood forums; they have management committees, which are made up overwhelmingly of local tenants. Tenants who are under more traditional management structures will have more traditional forms of representation. Those who move to local management or control are less likely to be involved in neighbourhood forums, but they are likely to sit on the management committee of their local management co-operative.

Mike Watson: From the new housing partnership money, would it possible to fund an independent tenants adviser, either Glasgow-wide or Scotland-wide?

Ms Alexander: Yes.

John Breslin: We have talked about £1 million being made available to tenants in Glasgow. Glasgow City Council has bid for £13 million in total, which has been earmarked for developing a proposal if it goes ahead with stock transfer. The First Minister considered that bid on the advice of the new housing partnership steering group. He has said that, of that £13 million, £3 million will be for tenants, of which £1 million can be released once a framework document has been agreed.

Mike Watson: That is a temporary arrangement—the money is for the year following the publication of the framework document, prior to the ballot.

John Breslin: The balance of the £13 million is available for tenant consultation until a proposal has been developed, but it is subject to conditions. The new housing partnership advisory group suggested—and the previous minister agreed—that £26 million would be available for feasibility and option study work in 24 councils across Scotland. A large element of that would be spent on tenant consultation. Money is available to councils to consult tenants when they are drawing up proposals.

Mike Watson: However, it is not available for the period beyond the ballot. It is available only to assist tenants to participate in the ballot and be fully informed.

Ms Alexander: Yes.

Mike Watson: I want to turn to the question of staffing, particularly in Glasgow. The committee took evidence from the Glasgow Joint Trade Unions Committee and the Scottish Trades Union Congress about the likely effects of the stock transfers, and both organisations very strongly made the point that there was no staff involvement in the steering group.

Minister, you said that it was not appropriate to involve tenants in the process, because the only representative group that you could find was implacably opposed to it. However, what about staff who work for Glasgow City Council? They will obviously have a range of views and the fact that there is no staff involvement in the steering group highlights a gap.

11:45

Ms Alexander: This has been a difficult issue. There was a concern that, if there was no agreement on proceeding with the transfers, talking to employees of another organisation would prove difficult. The important thing is that staff are made aware of any proposal as soon as it is available.

In commercial organisations, when a decision is made, that is it. In this case, after the proposal has been put on the table, there will be 12 months of consultation not just with tenants but with staff to find out whether a business plan can be agreed. The STUC and other organisations have arranged many meetings with a variety of shop stewards organisations. Although it is inappropriate for a minister to talk directly to housing managers and employees of an individual council when there is no proposal on the table, I have had several general discussions with trade unions about the stock transfer process.

Mike Watson: Presumably you want the stock transfers to go through. However, can that not be done by making sure that both tenants and staff are fully informed and part of the process, which they have not been up to now?

Ms Alexander: It has not been clear whether Glasgow City Council and the Scottish Executive could reach agreement on the issue. We can have discussions with staff only when there is a proposal to discuss. There have been discussions about whether there is even a basis to proceed with the stock transfer as soon as a decision to do so is made. Over the next 12 months, there will be full consultation as the proposal is drawn up, but any discussions will be led by the people who will be directly involved with the transfers. At that point, the Executive will withdraw. We have been involved up to now because we have to give a commitment in principle to devote hundreds of millions of pounds of public money over a number of years.

Mike Watson: I accept that. However, there is great concern about job security should the transfers happen, and both council staff and council tenants have an interest in the process.

Your memorandum says that 4,000 jobs could be created and that there could be about £1 billion of private investment. Where do those figures come from? Furthermore, do you have an estimated net figure for jobs, bearing in mind the fact that there could be some job losses?

Ms Alexander: As you say, this is a growth scenario. If we are asking Scottish taxpayers to pick up the tab for the whole debt and to release rental income to support private investment—for the first time in Glasgow—people should recognise that in this case we are expecting to invest a further £1,000 million. The desire for job security has been articulated by Glasgow City Council and is a general principle that we hold. An exciting aspect of the proposal is that it is a growth scenario in which £1,000 million will be invested in construction over the next decade. The estimate of leverage rates which produced the figure of 4,000 jobs is based on work by the Chartered Institute of Housing in Scotland.

The Glasgow Development Agency and the Glasgow Alliance are undertaking much more detailed work on the impact on the construction industry in the city. However, until there is a proposal on the table, the profile of the investment and the point at which those full-time equivalents will become available is not clear. Although the council's original feasibility study suggested a six-year horizon, the funders want the profile of the spend to be spread over a full 10-year horizon. As a result, the question of the number of full-time equivalents and the net job creation estimate is dependent on the profile of the spend. We should receive a view on that in the next six months, but this is a job creation scenario.

Mike Watson: Is your estimate of 4,000 jobs a net figure?

Ms Alexander: No. Well, yes, it is a net additional figure, over and above housing management. The estimate makes no assumptions about the implications for either housing management or the repair services. The figure is generated exclusively by improvement and associated work.

Mike Watson: So, is it a gross figure, because you will have to offset it—

Ms Alexander: Yes. Well, it is not gross in the sense that the employees are already in place.

Mike Watson: Our information suggests that some job losses are likely to be caused by the stock transfers to housing associations.

Ms Alexander: Really? From where do you get that information?

Mike Watson: That was the clear evidence from the trade unions, which leads me neatly on to the point that you made about the construction industry. The construction trade unions in Glasgow City Council were clear that their members' jobs were under threat, because it is often the case that, in new housing developments, house builders bring in their own staff. Those people often do not live in Glasgow—they do not even live in Scotland. They are housed at low cost, work for 12 hours a day and have none of the usual trade union or employment protection, such as holidays, sick pay and so on, which is a major concern. Can you write into the proposal that employers will be encouraged—if they cannot be legally obliged—to ensure that the maximum number of jobs are created in Glasgow, in order to maximise the impact on employment for Glasgow?

Ms Alexander: Yes. I hope that I can offer you some reassurance on the three issues that you highlighted.

The repair service is currently carried out by the direct labour organisation. Everyone I know of who is involved in the process intends that the DLO should continue to provide the repair service. If one transfers stock from one landlord to more localised management, one would probably consider issuing more than one contract for £90 million of work. However, the DLO already provides services, under contract, to the 29 tenant-management co-operatives, or at least for a large number of those co-operatives, so the repair services would continue.

On new investment, there is an interesting question about the contract compliance conditions that the new organisation—and the tenants—may want to impose on the construction companies that bid for that work. We have invited the trade unions to consider those conditions.

I am encouraged by Charlie Gordon's evidence that the council is offering to recruit 1,000 apprentices in Glasgow in the coming year. The council is going around secondary schools in Glasgow and inviting applications, on the basis that apprentices would be trained up, not so that they would all be employed in the repair services but in order to create capacity in the city for construction services.

Mike Watson: That positive point was made to us. However, the concern is that local authorities tend to take on apprentices whereas, in many cases, building companies do not, as they do not tend to look very far into the future.

You mentioned housing management staff and, although attention is often paid to DLO staff, I am concerned about the possible impact of stock transfer on other local authority staff, such as those employed in housing management, legal services, architectural services and other staff involved in regeneration. What thought have you given to them? If those staff are no longer required by the city council, what will happen to them?

Ms Alexander: I stress that those matters are for the people involved at each level—it would not be appropriate for the Scottish Executive to get involved until the business plan is produced. Our job is to find out whether the funders are prepared to finance the scheme and to decide whether the scheme meets the objective of community ownership. How security of employment—which is the important objective—is delivered is a matter for local negotiation.

You asked about DLOs. There are concerns about goods and services legislation and approved organisations. At the moment, DLOs can—and often do—carry out repair work for housing associations. If we move to a wider definition of registered social landlords—which we said we would do in the housing bill—it seems appropriate that DLOs should be approved organisations. In that way the DLOs would be able to carry out repair services for all registered social landlords in Glasgow or for those that emerge from other stock transfers. I hope that that is reassuring.

Glasgow's DLO has an excellent record, but that is not typical. Throughout Scotland between 1994 and 1998, the private sector employed one apprentice per £2 million of output. Typically, DLOs employed one apprentice per £5 million of output. Glasgow has an outstanding record—it is the exception to the rule and it is trying to gear up further.

There are valuable lessons to be learned from Scottish Homes on housing management staff. The survey of Scottish Homes staff showed that they felt that there was greater job satisfaction after stock transfers. It is important in the first instance that there is minimal disruption to staff. Disruption might be minimised through secondment—a model that is well established in the Scottish Enterprise network, where staff are seconded to the local enterprise companies from the central organisation. That is not done through the Transfer of Undertakings (Protection of Employment) Regulations 1981. We are reaching the point where such detailed discussions should be taking place at a local level.

Karen Whitefield (Airdrie and Shotts) (Lab): I would like to ask about the process of stock transfer. We have already heard a number of concerns about tenant involvement from tenants and we have heard that tenants' early involvement has been a key to successful stock transfers. What mechanisms should be in place to ensure tenants' involvement in making decisions? Who will be responsible for ensuring grass-roots involvement and community participation? Who will be responsible for the strategic overview of participation and is that one of the areas into which Scottish Homes—in its new role as an executive agency—might give some input?

Ms Alexander: I am encouraged by the committee's commitment to tenant involvement and I welcome the stress on that as part of the community ownership package. There is a large constituency that says that the issue is about getting the money and that people just want new windows and doors. Those people do not want tenants to be involved in the process and they believe that tenants do not want to spend their time going to meetings. The committee has heard that variety of testimony.

The Convener: Yes, we have.

Ms Alexander: Although the committee might take tenant involvement as read, that is not the case throughout Scotland. The Executive is trying hard to strike the right balance on the extent to which we should try to impose tenant-led solutions on organisations that feel that stock transfer is just a way of dealing with a debt. The funders might be unhappy with tenant involvement because the tenants do not have a proven track record. They might also feel that it would take to longer to get new windows and doors fitted because tenants would not be able to do such jobs based on economies of scale—jobs would have to wait until tenants had decided on the doors that they wanted. The Executive would welcome guidance from the committee on how prescriptive we should be in enforcing tenant leadership. There is a risk that the Executive could be accused of telling people what to do and how to do it.

There are three levels. First, how are our tenants involved at the strategic level in the landlord organisations? One of the models that has been mooted is to have one third councillors, one third tenants and one third independent organisations. We would be happy to see that model emerge from the proposals.

You are right, Karen, that the next level is where participation has been missing and where we must reach a judgment on whether it is appropriate to import participation into new housing partnership models. Is it enough to say that we will have tenants on the board and then let them manage their own houses? Should we let tenants sit down and have a strategic discussion about what their community will look like? Is there an opportunity for them to sit down and say, "What does Possil look like? Or Pollok? What will the west end be like? Where is Garthamlock going?"

12:00

That is the bit that has often been missing from the debate about new housing partnerships—the right of tenants to be part of the discussion about the strategic overview of their area and not just to take part at the very local level, which is much more analogous to a tenant-management co-operative or a housing association. Those organisations might be tiny, with only 200, 500 or 1,000 members, worrying about the quality of the repairs service or the local allocations policy.

Our preferred option is for tenants to be involved at all three levels: the highest level, the strategic level—what their community looks like—and the local level, managing their houses. We look forward to the committee's advice about the extent to which we should impose that model on all stock transfers.

Karen Whitefield: Will Scottish Homes have a strategic role to play?

Ms Alexander: Yes. It will have a regulatory role, which means that it will be the backstop for enforcing the criteria for registered social landlord and ensuring that organisations work. I do not want to speak for Scottish Homes, but I think that it is fair to say that it does not want its reputation for regulating housing associations to that model to be tarnished by organisations failing to uphold the standard. We have set a high barrier by saying that every ownership organisation must meet Scottish Homes' registered social landlord criteria. Scottish Homes will be robust in ensuring that organisations measure up, not just by being not-for-profit in name, but by adopting appropriate practices.

The other thing that you touched on Karen, which comes back to housing associations, is the fact that the regulatory function is not the same as the development function. We need to decide where to look for the development role in a stock transfer proposal—whether from other tenant management co-operatives, other housing associations or Scottish Homes. That is where we must hope that local people will see the opportunity and grasp it.

Karen Whitefield: I am glad that you mentioned regulation, as it has come up from time to time. I am particularly interested in your view on the mechanisms that are required to ensure proper regulation and monitoring of new social landlords. All of us hope that nothing will go wrong, but whose responsibility should it be when it does? At the moment, section 17 appointees are brought in. Are they enough to rectify problems at an early enough stage to ensure that a housing association does not go on to fail?

Ms Alexander: I will keep this brief. The housing interest group met yesterday. We had presentations from a variety of people—the department, Scottish Homes and the Chartered Institute of Housing in Scotland—about how to get regulation right in the new housing market in Scotland, particularly the regulation of local authorities.

At a local level, Scottish Homes will have the job of regulation, which, as you say, it already does well. There are occasional failures. The discussion strayed into the areas that you mention: whether the current procedures are adequate or whether they need to be revisited. Everybody round the table was anxious to have a light touch where appropriate, but not so light that the funders would not have confidence and would seek their own processes of direct intervention. There was unanimity that the Scottish model and the co-operation between the Scottish Federation of Housing Associations and Scottish Homes in at least agreeing the standards were things that we want to preserve and import more widely across the emerging socially rented sector.

I just want to leave it there. We are at this moment taking submissions on that matter for the housing bill, and we would welcome any insights from the committee about changes that it would like to be made.

Karen Whitefield: My final point is about statutory obligations on local authorities in relation to housing and homelessness. The committee has heard evidence about this issue. Some local authorities find housing associations effective in allowing them to meet their statutory obligations; others have experienced some difficulties. What mechanisms will there be to ensure that if local authorities no longer have housing stock of their own, they will be able to meet their statutory obligations? What will happen if a dispute arises between a local authority and a new landlord?

Ms Alexander: Changes to the statutory obligation, deciding who is homeless and how they are to be treated are matters that the homelessness task force is considering. I know that you have taken a close interest in that. The task force's findings are due to be published shortly. It has considered changes to the statutory obligation and the new changes will go into the housing bill. You are right about there being concerns in the past but, based on the new statutory obligation, the Convention of Scottish Local Authorities and the Scottish Federation of Housing Associations are now drawing up a framework agreement for the discharge of local authority obligations. They will produce a model contract. We are giving them financial support to do that.

The homelessness task force has considered what arbitration mechanisms are needed to handle disputes and what statutory safeguards there should be in cases of disagreement. I spoke yesterday to Shelter, which is confident that the three-tier structure of the right statutory obligation, the right model contract and the right arbitration process will achieve the right solution. The problem, especially in Glasgow, is that many of the empty houses that are being offered to homeless people do not measure up. Shelter thinks that all those protections can be built in if we can begin to improve the quality of the stock and get the common housing registers up and running. Until we can do that, those problems will get in the way of appropriately meeting the statutory obligation.

Mr Quinan: Has any guidance been issued on how local authority staff should be involved in the process of transfer?

Ms Alexander: That will be covered in our model guidelines, which will deal with the need to involve staff at every level in drawing up a proposal, but we do not yet have a proposal.

Mr Quinan: Will the proposal be drawn up in consultation with the joint trade union group or with the Scottish Trades Union Congress, or purely by the steering group?

Ms Alexander: I do not envisage the steering group having a long-term life. The job of the steering group was to reach agreement so that a proposal could be drawn up at local level by the council and the tenants. The Scottish Executive will issue guidelines on all aspects of transfer, stating how we expect councils, successor landlords and tenants to talk to staff about the implications of stock transfer.

Mr Quinan: Do you believe that staff in all areas that are touched by stock transfer should be involved in the process at an early stage?

Ms Alexander: Absolutely. Once a proposal is being developed into a business plan by a council, it is imperative that staff are involved.

Mr Quinan: Have you flagged up that issue with staff and unions so that they can prepare to make their input?

Ms Alexander: Yes. Glasgow City Council has indicated to its staff—I have met trade union officials several times—that our discussions have been to try to get agreement on a framework that would allow the council to go ahead and draw up a proposal over the next year.

Mr Quinan: Have you considered the appointment of an independent staff adviser?

Ms Alexander: That would be a matter for the council, as any employees are contracted employees of the council. There will be protracted negotiations, and it is important that as much security as possible is given to staff. We would encourage councils to involve staff at every step.

Mr Quinan: Particularly on the direct labour organisation. What would be your ideal role for DLOs throughout Scotland, after stock transfers?

Ms Alexander: A variety of models will emerge. A major DLO such as Glasgow, which has a big contract to service 90,000 houses and is taking on 284 apprenticeships a year, has a different set-up from the DLO in the western isles, in which there is already a high level of subcontracting. It would be wrong for the Scottish Executive to try to prescribe for councils or successor landlords the appropriate model for them to draw up in consultation with their tenants.

Mr Quinan: So, you do not have any ideas about the appropriate way forward for DLOs in those circumstances?

Ms Alexander: No. As soon as any council reaches the stage of drawing up a proposal, there needs to be lengthy consultation with staff and trade unions to devise the appropriate solution for that authority.

Mr Quinan: I am sure that that would have implications for council budgets.

Ms Alexander: Sorry, what was the question?

Mr Quinan: If DLOs transfer out, or if you do not have an ideal position, surely that will have budgetary implications for local authorities in future.

Ms Alexander: The key point is that all the work that is done at the moment, on housing repairs and so on, will continue. In some circumstances, DLOs carry out more housing maintenance work, but the width of DLO activity varies from authority to authority. Each authority will want to discuss those matters. The important fact is that the volume of work will in no way diminish; in every stock transfer, we are talking about an increase in the volume of construction work that will take place in that area. The obligation is to ensure that that new work is carried out in an appropriate way.

Mr McAllion: I would like to explore further how good the guarantee is of RPI plus 1 per cent for rent increases.

Berwickshire Housing Association admitted to the committee that the guarantee it offered was for only five years, that it was offered only to transferring tenants and that any tenant who joined the housing association after the transfer in 1995 had to pay a different rate. Five years on, they are paying rents that are, on average, 20 per cent higher than those of tenants who transferred. It also admitted that when the guarantee runs out this year, the transferring tenants' rents will be harmonised upwards to the higher levels that are already being paid by the new tenants who came in after 1995. Is the guarantee not just a loss leader that allows—usually after five years—the new organisation to impose massive rent increases that put rents beyond the means of just about anyone who is a member of such an organisation?

Ms Alexander: I genuinely think that that is alarmist, John.

Mr McAllion: Berwickshire Housing Association admitted that that is what it did.

Ms Alexander: That is as nothing compared with the 131 per cent real-terms increase in rents in Glasgow City Council since 1983.

Mr McAllion: So you are not saying that that will not happen; you are simply saying that it is not as bad as staying under council ownership?

Ms Alexander: No. I am saying that tenants of councils in Glasgow have not had a guarantee lasting even one year. There are two issues: the first concerns the security of rents; the other concerns overall affordability. No council tenant has the first clue what their rent will be in a year's time. In stock transfers—there are different models; some people are offered guarantees of five years, others more than five years or up to 15 years—rather than a guarantee of one year, people are being offered a guarantee of five years or more in the first instance. They might want to negotiate whether that is renewable.

Mr McAllion: Representatives of Sanctuary Housing Association in Ardler also gave evidence. They admitted that their lenders insisted that the guarantees—although they were for 15 years—apply only to transferring tenants and that new tenants who came in after the transfer date would have no such guarantees. That was at the insistence of the lenders. Is it not the case that the lenders will determine rent levels for transferred stock in the long run—not the housing associations, not the management committees, not the tenants, but the lenders?

Ms Alexander: Over the next year, every authority will decide whether they want RPI, RPI plus 1 per cent or RPI plus 2 per cent. Those decisions will be informed by discussions with lenders. Tenants will get to decide whether to go for a higher rent increase to speed up the investment profile, or to borrow more. I expect that they will ask for a guarantee so that they will have certainty for a fixed period.

12:15

In past years, we have served tenants very badly in respect of rent guarantees, but the consequence of rents having been way above inflation for many of the past 20 years is that the affordability issue kicks in. It is not the case that no limit can be put on rents. There is a limit to what is feasible and that has been recognised in Glasgow in the past two years.

Mr McAllion: I would like to be fair to councils, because they have been slurred by the suggestion that they cannot manage their affairs. Is it not the case that the massive increase in council rents in the past 10 to 15 years has been a direct result of Government policies that have been imposed on councils? I am thinking of the withdrawal of housing support grant and the revenue fund contribution, the imposition of the right to buy policy and the need to service debts. Governments—not councils—created high council rents. It is wrong for Governments to blame councils for the high levels of rents.

Ms Alexander: It is a bit of both. I will illustrate that. Glasgow's rent has gone from being the second lowest to the highest. There is no doubt that, in part, that increase has been made to deal with the debt-servicing burden. Glasgow has been left with stock that is worth a residual amount of money despite more than £1 billion being ploughed in over the past 20 years. That situation has arisen partly, but not exclusively, because of Government policy. That is why, John, we are not saying that all the new housing partnerships money should go towards stock transfers.

Authorities that have had to jack up rents to try to cover the servicing of large debts will have the opportunity to say, "Sorry, let's call a halt. We want to start again, but to do that you have to take our debt away." The Executive has said that half of the windfall for new housing partnerships from the sale of council houses in England will go towards building 7,000 new houses. That is double the number we could build with only public money. The other half will be kept for councils that have an unmanageable debt burden.

Some councils have been lucky—and well managed—and the profile of their debt means that there is no need for them to go for transfers.

Mr McAllion: Are you telling us that for councils with unmanageable debt problems—which, in my view, have been caused by Government policy rather than by the councils themselves—there is no alternative to stock transfer?

Ms Alexander: No—

Mr McAllion: For example, John Breslin said that the money that would otherwise be used to service debt would be given back to councils. However, the existing levels of capital allocations to councils are part of the problem. Councils do not have enough money to invest in their housing as it is, so if you just leave them with their capital allocations you are not solving their problem; you are leaving them in the mire.

Ms Alexander: This is all about the time frame. If we simply left councils with the capital allocation, what requires to be done would take them more than 30 years. If we did what Fiona Hyslop suggested, and took the debt away but said that we wanted to use public money and have nothing tainted with private money, it would probably take about 17 years. If we said that we wanted the tenants to be involved in making the decisions on the investment profile, and that we wanted to hold rents to RPI or RPI plus 1 per cent, it would probably take 10 years. If we wanted to keep the tenants out of it and, from day one, make all the decisions in George Square on how to spend the money, it could be done in six years if you made it RPI plus 2 per cent.

This is not an either/or—there is a spectrum of choices. The obligation on the Government is to offer the optimal range of choices. We are trying to distribute the resources that are available to us in such a way as to offer that range of choices.

Mr McAllion: But it is not a choice for councils such as Glasgow. Saying that the council can keep its existing level of capital allocation and its existing level of debt is not a choice—it is not a choice that any rational council will take.

Alex Neil: I agree with you, minister, that Mr McAveety and his predecessors made a mess of Glasgow's housing.

The Convener: Well done, Alex, I knew you would get one in.

The Deputy Minister for Local Government (Mr Frank McAveety): Predecessors maybe, Alex.

The Convener: I did not know whether we were going to get a silent Frank McAveety today.

Alex Neil: I would like to return to an answer you gave previously, minister, about the options. I want to be absolutely clear about this: you seem to suggest that this is an issue of timing rather than of levels of investment. Remember that the main motivating force in this new approach has been to increase significantly the level of investment in housing. If the transfer in Glasgow does not go ahead as a result of the ballot, what would the impact be over 10 or 15 years on the level of investment in Glasgow's housing stock, according to your estimate?

Ms Alexander: The capital allocations would continue to be made. Glasgow is currently spending about 45p in the pound, slightly under half of its money, paying for debt. A 20-year profile will show that that figure has increased, but not dramatically. That payment eats into the rental income available for repairs. The capital allocations from the Government have been on a straight-line basis, despite a reduction in the stock. I do not think that there would be a tremendous change from the position of the past couple of years.

As we know, that is not enough to bring about the stepchange that we are looking for in the condition of the stock.

Alex Neil: Let me rephrase the question. If the stock transfer goes ahead, you obviously expect a certain amount of additional investment in Glasgow housing.

Ms Alexander: Yes.

Alex Neil: If the stock transfer does not go ahead, and if there is no additional Government funding through capital allocation or assistance with the servicing of the debt, what is the gap in investment in Glasgow over a 10 or 15-year period?

Ms Alexander: If we proceed with stock transfer, the new organisation will have the capacity to borrow up to £1.6 billion.

It is not just about investment; it is also about community ownership. I do not think that it is possible to measure the outputs of that £1.6 billion in purely monetary terms. I expect that the new organisation, while having the capacity to borrow up to £1.6 billion—if tenants are put in charge of deciding what investments are made in their housing—may not need to borrow to its full capacity, yet will produce much more sustainable communities than has been the case through past investment.

It is partly a question of the failure of past investment, not just about the volume of investment. That is what this committee needs to recognise and engage with as it takes a whole-Scotland view. The attractiveness of this committee is that no one else I speak to looks at this matter from an all-Scotland perspective. Everyone else just looks at the issue on an our authority basis.

The choice for this committee is whether to say that this issue is not just about the volume of investment, but about the quality of the investment and how to ensure that it is high.

Alex Neil: Absolutely, but if we maintained the status quo in relation to where the borrowing is obtained but adopted a policy whereby the management and control of municipal housing was devolved to community-based housing organisations, would that not achieve the same objective without all the hassle and all the other implications of new housing partnerships? Would that not be an option to be considered?

Ms Alexander: Some people define municipal as monopolistic. We need to define whether municipal here means monopolistic or pluralist. Secondly, tenant management co-operatives are devolved, but their problem is that they do not have any investment. It is not an either/or question, but a question of investment plus community ownership. Devolving power, as tenant management co-operatives have done, is a soul destroying experience if no new investment for the stock is available.

Alex Neil: Is it essential to transfer the stock to achieve those objectives? Could the same objectives not be achieved while retaining local authority ownership of the stock?

Ms Alexander: It is not possible to attract up to £1.6 billion of private investment into—

Alex Neil: But you just said that is not all about that, though.

Ms Alexander: No, I have said that it is about both—they are inextricably linked. That scale of investment cannot be attracted on the public books in that time frame.

Alex Neil: I wish I could pursue that.

The Convener: Do not worry, Alex, we will get the minister back.

Robert Brown: I shall return to the pace. This is a big investment and improvement opportunity by anybody's account. As the minister said, it is important that the transfer is done properly and with quality. Does the construction industry have the capacity to react in the time frame that we are talking about here? Potentially, there is £1 billion of investment in Glasgow. Without causing the problems of loss of quality, high wages and so on that, relatively speaking, disfigured the big investment in tenement rehabilitation in the 1970s, would it not be better to pace this a little, particularly when we consider the need to grow the community-based organisations to manage the stock anyway?

Ms Alexander: The capacity of the construction industry to gear up is a real challenge. The council is already addressing that by taking on the apprenticeships and we have met the construction industry's training board. You are right that the more councils move to community-based models, the longer it will take communities to reach consensus about the right solution for them. That will inevitably lead to a different profile of phasing.

The other discussion that will take place within the next year, when the proposal is being drawing up, is the one that John McAllion and Robert Brown have alluded to. If the transfer is phased in over a slightly longer time, the rent increase does not have to be quite so high. The reason for that is that there is not a huge bulge in borrowing capacity in year six because the investment profile is smoothed in year 10. It is not pressure in the construction industry that will drive it; it is local sign-off of the investment decisions that will lead to a smoothing, which will have the knock-on effect of allowing the construction industry to gear up. To some extent, that balance between the need for urgent investment and local signing off of the decisions is exactly where I expect the debate to be in the next year. I would like the committee to be part of that debate.

Robert Brown: The question of pace comes into a lot of areas. Would it not be better to set a target of wholesale stock transfer after, say, 10 years, rather than have the big bang, with all the concomitant bureaucratic difficulties and so on that we have been identifying during this morning's meeting?

Ms Alexander: That risks residualising part of the city because it gets into apportioning debt. It does not allow the debt be lifted in a oner and to be made the responsibility of the Scottish taxpayers. That would free up the tenants to know that, for the first time in 100 years, they are starting from a debt-free level playing field. It would allow them to consider what they want to do with their community, unencumbered by their debt servicing burden.

The Convener: Thank you, minister.

Glasgow has loomed large in your evidence here today—I welcome that strongly—but to some who have given evidence to the committee, Glasgow looms too large. Can you reassure the wider public and us that Glasgow does not determine the policy for all of Scotland?

Ms Alexander: I am happy to offer that reassurance. Glasgow has loomed large today because it is the transfer that dominates public debate. Discussions are going on. A couple of weeks ago, I was talking to people from Dumfries and Galloway about how they are trying to realise their objectives. I have also talked to some of the island councils.

I genuinely look forward to the committee's evidence on this. You may wish to reflect, in advance of your final report, that it is important that the guidelines that we will issue in the next few weeks are permissive enough for all parts of Scotland to feel that they can come up with a solution that is right for them.

If we do not envisage one landlord with 90,000 tenants being a permanent feature of the Glasgow housing scene, neither is it appropriate that in Dumfries and Galloway there should always be one landlord with 12,000 tenants. We have to strike a balance in the guidelines between giving people enough space to do what is right for their part of the world and not compromising the essential principles of community ownership by allowing single landlords to be a permanent feature of the landscape. The committee may want to take a view on that in advance, because it has received a wider spread of evidence than anyone else.

12:30

The Convener: We will take lots of views. We will have a lot to say in our report.

I understand why Glasgow is the dominant issue. You said that if we can solve this problem in Glasgow, we can solve it anywhere. If stock transfer does not work in Glasgow, does that mean that it will not work anywhere else?

Ms Alexander: At the moment, we are not contemplating failure.

The Convener: I would not expect you to. So what is the answer?

Ms Alexander: The answer is that we do not expect failure. I do not think that Glasgow expects it. There will be change only if the tenants want it. If tenants decide that they want change, I have no doubt that a community-ownership vision will be realised.

The Convener: We will get back to you on that. I am sure that we will have an interesting dialogue, especially as our report is imminent.

I thank you on behalf of the committee. You have given us three hours of your time, and we are very grateful for that. I have never seen anybody keep Frank McAveety so quiet before. That is an achievement in itself, so we wish you well.

Mr McAveety: It has taken 10 months, but it has been massively successful.

The Convener: I thank members of the committee, who have been very disciplined. We have many more questions to ask the minister and will do so when discussing other issues.

If members so wish, we can take some time to reflect on the evidence that we have taken—although I suspect that we are all a bit drained, given that we have been here since 9 o'clock this morning. We also need to sort out one or two details of next week's meeting and should probably do that on the record. We can then go into private session, if necessary.

Before we talk about next week's meeting, are there any points that members wish to flag up? Members are free to pursue in writing any issues that they would like clarified. I believe that Alex Neil wishes to do that. We will go through the paperwork and check that it is done.

Mr McAllion: The witnesses spoke about each local authority being required to appoint an independent valuer. That is not good enough, because the Executive will appoint its own independent valuer if it does not agree with the valuation that is provided by the local authority's independent valuer. It would be worth picking up on that, as it looks as if the Executive is retaining the right to decide on the value of stock.

The Convener: We will have to move quickly on that, as we are beginning to think through the chapter headings for our report.

Alex Neil: We will want to see the comparative analysis on value for money before we can reach conclusions. We need to find out when that will be ready. John Breslin said that it would take a few weeks. It would be useful if it could be ready sooner rather than later. I suspect that it will not—if, indeed, the exercise has even begun.

It might also be useful for Mary Taylor and Stephen Curtis to make a list of the questions that we did not get to ask or to which we did not get answers. You could then write to the Minister for Communities requesting answers to those questions, convener.

The Convener: I will do that speedily.

Alex Neil: I apologise to Mike Watson for stealing one of his questions. I did not intend to.

Mike Watson: I did the same to Lloyd Quinan.

Mr McAllion: We were given statistics of one apprentice for every 2 million or 5 million. I suspect that that has something to do with skillseekers, rather than full craft apprenticeships. That needs to be clarified.

The Convener: I was intrigued by that and would like to explore it.

Mr McAllion: I imagine that we are dealing with 18-month jobs in the private sector.

The Convener: Mary Taylor, Stephen Curtis and I will meet today or tomorrow to pursue that. If necessary, we can phone John Breslin's office before writing.

Mr Quinan: Is it worth asking the Executive for its definition of apprenticeship? This is a word that gets thrown round all the time—I am damned sure that we are not talking about the five-year apprenticeships that folk did when I left school. There need to be people who are already trained to train the apprentices. I heard the other day that the new hospital at Wishaw is using 20 to 30 Turkish workers from Germany because there are not enough people here to work on it. We need to know what is the model for the apprenticeships that have been talked about and whether they bear any resemblance to the trade and craft apprenticeships that some of us may be thinking about. Such apprenticeships would require the involvement of a senior, a journeyman and an apprentice who is already two years into their apprenticeship.

Mike Watson: Are you talking about private-sector apprenticeships?

Mr Quinan: I am asking about the definition of apprenticeship.

Mike Watson: The figure that the minister gave us was for each pound spent. Per pound spent, there were more in the private sector.

Mr Quinan: I want to know what constitutes an apprenticeship and what training is involved. Are two days in college enough?

Alex Neil: When we come to make our recommendations, it may be useful for us to suggest ways in which the benefits to the Scottish economy of substantial investment in housing and the construction sector are maximised by ensuring that local labour is employed and so on—irrespective of whether stock transfer takes place.

The Convener: At one point, the committee asked me to talk to John Swinney, as the Enterprise and Lifelong Learning Committee, which he convenes, is also looking into this question. I did that some time ago, and the Enterprise and Lifelong Learning Committee is not investigating the issue in the way that we would require. However, John Swinney has a report that he thinks would be of relevance to us. I will chase him up about that. I said that our report was likely to deal with this issue and that we would probably refer material on to him. He was very happy with that.

Mr Quinan: Good.

Future Business

The Convener: We have a packed agenda for next week. I will hand over to Martin Verity.

Martin Verity (Clerk Team Leader): On next week's agenda is a discussion of our report on the voluntary sector. We are inviting witnesses to that meeting. We are hoping, subject to confirmation, to go through the first scrutiny stages of the budget. That depends on the information being available to us. The committee also asked for a further update on the proposals for the inquiry into drug misuse in deprived communities.

As members know, we are trying to organise a meeting on the same day, during which we can start to go through the wealth of evidence on housing stock transfer that the committee has received, so that the clerks can start work over Easter on producing a draft report, which the committee will be able to consider in May.

The Convener: Is it possible to have lunch arranged for us next Wednesday, as we will be working from 9 in the morning to 2 in the afternoon?

Mike Watson: Does next week's meeting start at 9 o'clock?

The Convener: No—I am exaggerating slightly. I just want my sandwiches.

Martin Verity: We will do what we can.

The Convener: It will be a quite a hefty meeting next week, because it will take us a long time to get through the report. That is the price we pay for taking so much evidence.

Bill Aitken: We will have big problems, because that is also the day of the Holyrood debate.

The Convener: So it is. We will have to see what we can get through.

Mr McAllion: Could we suggest a stock transfer for Holyrood?

Bill Aitken: We are coming to the stage at which there will need to be private investment in that.

The Convener: I thank everyone for their help.

Meeting closed at 12:38.

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