



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

# LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE

Wednesday 8 September 2010

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**Wednesday 8 September 2010**

**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>3341</b>
<b>DRAFT BUDGET SCRUTINY 2010-11 .....</b>	<b>3342</b>
<b>SUBORDINATE LEGISLATION .....</b>	<b>3371</b>
Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233) .....	3371
Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234) .....	3371
<b>PROPERTY FACTORS (SCOTLAND) BILL: STAGE 1 .....</b>	<b>3372</b>

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**LOCAL GOVERNMENT AND COMMUNITIES COMMITTEE**  
**19<sup>th</sup> Meeting 2010, Session 3**

**CONVENER**

\*Duncan McNeil (Greenock and Inverclyde) (Lab)

**DEPUTY CONVENER**

\*Bob Doris (Glasgow) (SNP)

**COMMITTEE MEMBERS**

\*Patricia Ferguson (Glasgow Maryhill) (Lab)  
\*David McLetchie (Edinburgh Pentlands) (Con)  
\*Alasdair Morgan (South of Scotland) (SNP)  
\*Mary Mulligan (Linlithgow) (Lab)  
\*Jim Tolson (Dunfermline West) (LD)  
\*John Wilson (Central Scotland) (SNP)

**COMMITTEE SUBSTITUTES**

Brian Adam (Aberdeen North) (SNP)  
\*Malcolm Chisholm (Edinburgh North and Leith) (Lab)  
Alex Johnstone (North East Scotland) (Con)  
Alison McInnes (North East Scotland) (LD)

\*attended

**THE FOLLOWING GAVE EVIDENCE:**

Crawford Beveridge (Independent Budget Review Panel)  
Lorraine MacDonald (Property Managers Association Scotland)  
Sir Neil McIntosh (Independent Budget Review Panel)  
Alex Middleton (Greenbelt Group Ltd)  
David Ogilvie (Scottish Federation of Housing Associations)  
David Reid (Hanover (Scotland) Housing Association Ltd)

**CLERK TO THE COMMITTEE**

Susan Duffy

**LOCATION**

Committee Room 1



## Scottish Parliament

### Local Government and Communities Committee

*Wednesday 8 September 2010*

[The Convener opened the meeting at 10:00]

### Decision on Taking Business in Private

**The Convener (Duncan McNeil):** Good morning. Welcome to the 19<sup>th</sup> meeting in 2010 of the Local Government and Communities Committee. I remind members and the public to turn off all mobile phones and BlackBerrys.

Agenda item 1 is to consider whether to take in private item 5, the discussion of a future evidence session on the Property Factors (Scotland) Bill. Is that agreed?

**Members indicated agreement.**

## Draft Budget Scrutiny 2010-11

10:00

**The Convener:** Agenda item 2 is to take oral evidence from the independent budget review panel on its report, which was published in July. I welcome Crawford Beveridge, the panel's chair, and Sir Neil McIntosh, a panel member. I offer Mr Beveridge the opportunity to make some opening remarks before we move to questions.

**Crawford Beveridge (Independent Budget Review Panel):** Thank you for inviting us to appear before the committee today. Unfortunately—fortunately for him—our colleague, Robert Wilson, is in Australia at the moment, so he is unable to attend and sends his apologies.

All of you have probably had a chance to see the report that we delivered to you on 29 July. There has been quite a lot of discussion of the report in various parts of the press. If you are content, we will not make much of a speech at this stage but move to questions, so that we can answer as many of members' questions as possible.

**The Convener:** That would be useful—time is precious this morning.

**David McLetchie (Edinburgh Pentlands) (Con):** Good morning. Thank you for coming along and for your excellent report, which will be of great help to the Parliament in the months ahead. I want to focus on the issue of efficiency savings and the section of the report that deals with that. The committee has been pursuing the issue, especially in relation to local government. It is claimed that hundreds of millions of pounds have been saved and that efficiency targets have been achieved and, indeed, exceeded there, but that seems to have been done on a wholly self-certifying basis. Audit Scotland tells us that, basically, no one has checked the sums and that we do not know whether the efficiency savings are real. Is that your conclusion from your examination?

**Crawford Beveridge:** We took people at their word on the efficiency savings that they reported. We also talked to Audit Scotland, which gave us the same information that you have—that it was having trouble certifying whether the savings were real.

As you know, the savings that have been claimed are quite a bit in excess of the 2 per cent target that the Government set. That is why we suggested in the report that we should not proceed too aggressively on the assumption of savings from any part of the public service. We thought that, if you pressed too hard on the issue, on the basis that the money could be made up by

assuming savings of 5 or 6 per cent, there was a high probability that those would not be achieved. That is why we said that, if the Government continues to set savings, especially savings that cannot be recycled and will be retained centrally, it ought not to go above 2 or 3 per cent.

**David McLetchie:** The present policy of allowing local government and other public bodies to retain their efficiency savings is very convenient, is it not? If bodies do not have to verify that they can make savings and there is no clawback based on that assumption, they are in a perfect world. Can they not claim all manner of virtue, without having any real standard against which to set it?

**Crawford Beveridge:** Although that is true, we saw many examples of recycled money being spent on other programmes. I was fairly satisfied that there were efficiency savings. It was more difficult to say that they were exactly the amount that was claimed, but there seemed to be evidence of money being recycled into other worthwhile programmes.

**Sir Neil McIntosh (Independent Budget Review Panel):** In a setting where bodies are not facing major cuts, efficiency savings and recycling—looking to improve services by achieving savings—are a proper approach to take. It is easier to claim savings in such a setting than to produce hard cash reductions. That is the difference. We have therefore said that recycling should not be a feature of the assumptions that are being made that any savings should be directed towards addressing the required cuts. We have also said that there should be an assumption of at least 2 per cent across the piece.

**David McLetchie:** You are effectively saying that, in determining budget allocations to councils, which is what we are primarily concerned with, the Government should top-slice, or do its sum, on the basis of an assumption and then make its allocation accordingly. Is that correct?

**Sir Neil McIntosh:** Broadly, we are advocating 2 per cent as a base assumption in that respect, bearing in mind our other point about efficiency savings alone being highly unlikely to address the scale of the issues that currently face public services.

**David McLetchie:** The Convention of Scottish Local Authorities has sent us a helpful background briefing paper—you might have seen it, as it is among our committee papers for today. In paragraph 24, on the subject of efficiencies, COSLA notes that it has

“successfully argued all along for Councils to be able to self verify efficiency gains, with suitable guidance in place, and for a light touch to be adopted with regard to external scrutiny and we would want this to continue to be the case.”

Can I take it that you do not want that to continue to be the case, and that we need a stronger touch on the tiller to ensure that such savings are real and not just apparent?

**Crawford Beveridge:** At the core of all this is the need to find £1.7 billion of savings, in some way or another, over the next year. It will become critical to verify that the savings are being made. If not, we will breach the budget that is given.

We have set a relatively low efficiency amount on the Government's part. As I am sure you are aware, and as COSLA would probably say, savings get harder and harder to make each year. We go for the easy ones first and, as time goes on, we cannot get as much out of the system as we want. It does not seem prudent to make assumptions about getting very high levels of savings.

**David McLetchie:** Essentially, we need better verification, coupled with either top-slicing in terms of the original funding assumption or clawback. Is that what we are saying?

**Crawford Beveridge:** Yes. Our assumption was that, as Government gave out its allocations to the various parts of the public sector, it would assume that at least 2 per cent of the difference would be made up by some form of efficiency saving.

**Sir Neil McIntosh:** That is part of a wider picture. It is not just a matter of verifying that savings are being achieved. Against a backdrop of the money not being there, they should be achieved.

**David McLetchie:** Indeed.

**Sir Neil McIntosh:** It is also a matter of verifying that the remainder of the resources are being applied to the best possible effect. The committee has been concerned about that point when it comes to benchmarking performance and the general assessment of the quality of the services that are being provided.

**Alasdair Morgan (South of Scotland) (SNP):** We know about the difficulties that the Finance Committee had in the previous session regarding the original efficiency programme. Apart from actually cutting the budget and assuming that efficiencies are delivered in that way, if we are trying to verify efficiencies, as Mr McLetchie suggests, that requires an increase in expenditure. It is not a simple exercise—it is quite complex, and it involves a lot of bureaucracy, definitions and so on. We will have spent a fair bit of money before we even begin to see whether or not there have been any efficiency savings.

**Crawford Beveridge:** That is always a dilemma. In an ideal world, we would do a much better job of verification. One thing that we

heard—not just from COSLA but from across the public sector—was that there was too much scrutiny and regulation, which was interfering with people's ability to get work done. Everybody will always say that, but there needs to be a balance somewhere, so that people can feel satisfied that they can achieve the goals that are being set without there being an undue burden, which would be much more costly at the front end, to set up a large bureaucratic structure. It is something of a trick to weave our way through those issues. We have had many discussions about that with the Auditor General for Scotland, as we have thought through what would be helpful in reaching some conclusions.

**Mary Mulligan (Linlithgow) (Lab):** My questions will be on the local government workforce but, before I ask them, I cannot miss the opportunity to ask Mr Beveridge about the first consultation meeting with Mr Swinney in West Lothian last night, which I understand he was at.

**Crawford Beveridge:** I was.

**Mary Mulligan:** Will you say a little about how it went?

**Crawford Beveridge:** It was interesting. We had an interesting cross-section of people, for example from the health service, the local council, credit unions and the chambers of commerce. It was a wide selection of people, and they were very engaged. To my surprise, many of them had taken the time to read all the way through the 150-odd pages of the report and were fairly well informed. The discussion ranged across all the topics, from the protection of concessionary travel to efficiency and on to other areas of the report. Overall, it was a useful way in which to gather information on what people feel the priorities are. For example, there was a big push from almost everybody towards more flexibility in the way in which money can be spent, and a move towards forms of early intervention. I was not sure what the meeting would be like before I turned up, but it was actually very good.

**Mary Mulligan:** Good—I am pleased to hear that.

I move on to my questions about the local government workforce. In the past few weeks and months, various local authorities have suggested how many people they would need to lose from present service delivery to reach the kind of budget that they foresee. When you were constructing your report, did you consider the impact of the job losses that we have heard about—the figure is 30,000 to 50,000—on service provision or on the Scottish economy in general?

**Crawford Beveridge:** Yes, we did. That was probably one of the more difficult parts of the report and we spent an enormous amount of time

on it. It became obvious to us that, even with reasonable assumptions about efficiency and with changes to some policies, such as the universal policies that we talk about in one part of the report, we just cannot get to a big enough number to make that £1.7 billion reduction. That is largely because, as you know, the pay bill is a huge part of the budget—it is about 60 per cent of the Government's overall budget. We cannot achieve the reduction without doing something about that. Even if we took the most draconian measures to restrain pay that we talk about in the report, we still cannot quite get there without reducing the size of the workforce.

Interestingly, one thing that we talked about with the audience at the meeting in West Lothian last night was whether engaging with the unions on more flexibility in the way in which work is done might help. We said in the report that we do not buy the assumption that lower costs necessarily mean less service. We need to consider how, with the cost constraint, we can rethink the way in which we work so that we still achieve our goals for the shape of public services in Scotland. The only way in which we can get there is through a degree of flexibility in how the workforce works, how people work together, how budgets might be spent and so on. That is along the lines of some of the things that community planning partnerships are doing.

The other issue is that, at a time when the economy is still pretty fragile, the higher the rate of decrease in employment that has to take place, the more risk there is to the economy, because there will be a multiplier on to the private sector from that. It is pretty important that we get the balance right. That is why it is important to engage early on the issues of flexibility and pay restraint to try to figure out how deep the cuts need to be, so that we affect the economy as little as possible.

**Sir Neil McIntosh:** Another point that we are very conscious of is that, if employment in the public sector is being reduced, that means that recruitment in the public sector is being halted. A whole generation of young people who would have expected to come into the system will be faced with the problem of employment. Those are not just numbers—they are real people, with all the issues that flow from that. There are broader issues about how to address that situation in the next few years.

10:15

**Mary Mulligan:** I will come back to talk about pay restraint. If people lose their jobs with local authorities, whether through redundancy, early retirement or whatever, there is a cost to that. At what stage will you see the benefits of losing those people? How long will that take?

**Crawford Beveridge:** If we assume that we can involve pay restraint, there is some hope of doing this through voluntary redundancy—by attrition, basically—which is a much less expensive way of doing things than forced redundancies of some sort.

The difficulty is that we could not get great data on the rates of attrition in public services in Scotland. Some data were available and some were not. The range seemed to be between 2 and 10 per cent, including retirements and so on. However, for those people who depart voluntarily and assume that they will get another job, if we really close down recruitment—if the public sector fails to step up its recruitment, which seems likely given what is happening in places such as the United States—the assumption that the attrition rates will stay where they are might be wrong. They might be too high. If so, we will run into cost issues, especially if we have to move to using some form of compulsory redundancy. However, there is hope of avoiding that if we can get the pay restraint issues right.

**Sir Neil McIntosh:** We have also advocated a recruitment freeze for posts that are not essential in the current year. Part of the objective of that is to make some resource available to assist with the costs of early retirement.

**Mary Mulligan:** The difficulty with a recruitment freeze is always that people do not leave the jobs that you might want them to leave, which has an impact on service delivery.

**Sir Neil McIntosh:** Over the next 12 to 18 months, because of the necessity to move immediately, there will inevitably be impacts on service delivery that cannot be carefully pre-planned and spread in the way that we would choose. However, the more flexibility that can be created, the better able we will be to address that issue.

**Mary Mulligan:** Do we have a structure in place to deliver the pay negotiations that will be necessary?

**Crawford Beveridge:** I will ask Neil McIntosh to talk about that, but I am doubtful. As you know, only around 8 per cent of the pay bill is directly controlled by the Government in Scotland. The rest is done through negotiating bodies that work largely at the United Kingdom level. That makes it doubly difficult for us to get to a position on pay restraint. The choices are stark—we will have either to lose a large number of people and put lots of services at risk, or to work towards a reasonable form of pay restraint and hope that people will be reasonable in discussing it. If we put flexibilities into the mix, I hope that those things together will mean that we can get to some kind of deal.

**Sir Neil McIntosh:** It is also appropriate to recognise that COSLA has to address the issue in terms of its declared pay strategy. That must have been a difficult decision for COSLA to take, but it has had to do it. I am sure that discussions are taking place within unions and between employers and unions. The unions obviously have an interest in their people and are anxious to avoid compulsory and major redundancy wherever possible.

There are opportunities; we have seen that on a number of occasions. For example, there is the flexibility of a four-day week rather than a five-day week for those who might want to choose that. There is a variety of ways of addressing employment issues that could mean that we would not have to lose a large number of people or which could mitigate that in some way. At the end of the day, however, the scale of the problem is such that there will undoubtedly be less employment in the public service in a year's time or two years' time than there is at present.

**Mary Mulligan:** What is the Scottish Government's role in the pay negotiations?

**Sir Neil McIntosh:** I am sure that the Government will have strategic discussions at the national level with the Scottish Trades Union Congress and others, and that is quite proper. It will seek to create an environment in which that sort of debate can take place. At the end of the day, it will come down to the individual employer in negotiation and discussion with trade unions. This time around, though, there are not many easy options.

**The Convener:** I believe that Patricia Ferguson has a supplementary.

**Patricia Ferguson (Glasgow Maryhill) (Lab):** Given the challenges that the public sector faces over the next few years and the fact that those who will be most attracted to a redundancy settlement that encourages people to leave the sector will be those with the most experience and skills, is there an identifiable opportunity cost of losing those people at a time when we will need a lot of skill and experience to deal with the issues that are coming up?

**Crawford Beveridge:** As you know, the Government has committed itself to a no-compulsory-redundancy policy until next spring. People who, like me, have spent most of their life in the private sector would never agree to such a policy for the very reasons that you have mentioned. On the one hand, you risk losing the people who have the capacity and experience that you want to keep while, on the other, you have very little control over who stays and who goes. As Neil McIntosh said earlier, you cannot have a strict no-hiring policy; you need some rule that allows



you to replace, say, the only teacher in a single-teacher school if they happen to go away. You do not have a lot of choice in that respect. As a result, there is an opportunity cost involved because it is possible—even likely—that we will lose many highly skilled and highly knowledgeable people.

**The Convener:** I do not know whether we are moving to clearer outcomes. In response to Mary Mulligan's question about how much would be achieved through attrition, did you say 10 per cent at best?

**Crawford Beveridge:** I think that 10 per cent is incredibly optimistic.

**The Convener:** According to your calculations, then, what would be the impact of that?

**Crawford Beveridge:** Assuming a reasonable degree of pay restraint, the 2 per cent efficiencies and so on, we concluded that you could get to somewhere between 2 and 4 per cent through attrition, which would be possible under normal attrition rates and through normal attrition reasons. However, that assumes the availability of jobs in the rest of the economy for those who are not retiring but who simply want to change. It is likely—or rather possible—that attrition rates in general will fall a bit in the private and public sectors.

**The Convener:** So we can affect the numbers in a small way, but there will still need to be redundancies, and redundancies, whether compulsory or voluntary, cost money. What is the average cost of a redundancy?

**Crawford Beveridge:** That is in the report, but I do not recall the figure off the top of my head.

**The Convener:** Is it between £20,000 and £25,000?

**Crawford Beveridge:** That is the average salary. The usual redundancy cost is about twice that, so one can assume that the running figure is about £50,000.

**The Convener:** That is a bit of a concern. Although you have worked very hard on this report for five months, we are still unsure about how much a redundancy costs, how many redundancies there will need to be, who will pay that bill and what impact it will have on an average community. Any redundancies and pay freeze will have a different impact on, for example, my community, where unemployment is already high and pay has traditionally been lower. Everyone is telling us that outcomes matter here. What will be the outcome of your suggestions as far as costs and communities are concerned? Can anyone give us a clear answer to that question?

**Crawford Beveridge:** What we have been saying is that as you move to the implementation

phase it is very important to have people who can drive through to an understanding of what some of these trade-offs are. The actual cost of redundancy depends on many things such as the individual's length of service, salary level and so on. It is fine to take the average figure but, when it comes down to it, there will be specific sets of redundancies that will have very different costs and very different impacts on communities.

From my own experience in business, I can say that in general the skill set needed to manage in up times is very different from that needed to manage in down times. If you are managing in down times, you need to carry out highly analytical work in the implementation phase to ensure that you are not crippling the organisation, its ability to meet its outcomes or indeed the communities that will be affected. The effect in a place such as Glasgow will be very different from the effect in a place such as Dundee, for example, so it is pretty important that we get people working on this fairly quickly.

**The Convener:** How can we have meaningful dialogue in meetings such as the one that you attended last night if people do not understand the choices that they are being given—choices about whether the impact of a pay cut is preferable to a redundancy or about the impact on the wider community? How can politicians make real choices on such issues if they are not given the costings and the financial model that they should be given?

**Crawford Beveridge:** They absolutely have to be—there is no question about that. At the moment we are at the stage of saying, "Here are some options." If you added up all the options that we put in the report and did everything that we suggested that you might do, you would make savings of something like £4.3 billion over the four-year period, in comparison with the £3.7 billion that needs to be found. We are saying that a set of decisions now need to be made. Are some things going to be ring fenced? Are we comfortable that capital is being cut by as much as it is? Is there any argument for moving some revenue into the capital account? Are we content that we will be able to reach a level of efficiency savings? Once we have clicked our way through all those questions, we will get to questions such as what policy things, if any, we might want to affect and what needs to be done with the workforce. Assuming that the goal is to keep our service levels in their current shape, as much as we can, and to minimise the effect on unemployment—to keep the workforce as it is—a workforce plan needs to be drafted that sets out the options that we have and what they would cost in terms of not just the costs of redundancy, but the cost to the communities that would be affected.

**The Convener:** That is what would be done in the private sector, where employers have no concern about the impact on the local community or the economy because they are focused on the need of the business to make a profit. We are dealing with something completely different here.

**Crawford Beveridge:** I managed about 20,000 redundancies over the past five years, and we always considered the impact on the community in which we were going to make those redundancies.

**The Convener:** Mr Beveridge, I was on the other side of the table for 10 years when redundancies were being made on the basis of what a company needed. We are dealing with something completely different here.

**Crawford Beveridge:** I agree with you totally—it is completely different. That is why I am saying that, once we have got through the decisions on the policy end of things, a lot of good, detailed work will need to be done on the impact on the communities that would be affected by the redundancies if we made them.

**The Convener:** Do we not need that information before the policy decisions are made? If we do not know the impacts of the savings on communities, individuals, councils and the quality of services, how can we make those decisions? It is a chicken-and-egg situation.

**Sir Neil McIntosh:** From a local government point of view, there have been cuts before, way back, but not in the past 10 years. There has not been a situation in which there has not been growth generally; however, even over the past number of years, there have been cuts in services and efficiency savings. This is a much bigger situation and, from that perspective, it is important to note exactly what the figures are that we are working with. In a local government setting, it is important to know the overall scale of the reduction that will be required and whether council tax resources will or will not be available in the coming year. It is also important for councils to know what they will be able to achieve through early work and contingency planning, looking at how they can hold numbers and restrain growth, and what will still need to be found. As you say, it is important to look at what the impacts will be in a variety of settings, such as rural communities and city-centre communities. All of that must progressively come through as the figures harden up. At present, as you know, there is a great deal of discussion in the media about police and other numbers and what cuts would mean across the piece. A lot of work is going on to assess what the cuts would mean, but the trigger will probably come in November with the Scottish Government's declaration of the resources that will be available.

10:30

**John Wilson (Central Scotland) (SNP):** I have a small supplementary question, convener, following on from what you said about short-term gains possibly leading to long-term impacts on local authorities, especially in the context of voluntary and compulsory redundancies. We already know the impact on the pension schemes that local authorities operate.

Recently the Scottish Government had to step in to deal with fire service pensions and police pensions. Some calculation of the long-term impact on pension commitments of short-term compulsory or voluntary redundancies and efficiency savings must be made. People who leave in a voluntary capacity do not leave without an on-going cost to local authority pension schemes.

We really need to know what gains can be made in the short term and what the long-term financial cost may be, because pension schemes will no longer have the same pool of resources and the demands on the schemes may be greater. At some stage—five or 10 years down the road—the Government may have to plough more resources into the schemes to keep them viable. We need to know what the cost impact will be in the short term—at present, we hear about local authorities setting aside £200 million or £500 million—but no assessment seems to have been made of the long-term impact on current pension schemes and how that will be addressed, given that a smaller pool of staff will be paying into the schemes.

**Crawford Beveridge:** Bizarrely, it is easier to make that calculation. We have not done it, because actuarially it is a bit difficult, but we know that approximately 1 million people in Scotland already receive or are due to receive a pension from Government. Assuming that there are not many more entrants into public service in the next few years, we already know what the pool of people is, so the calculation can be made fairly quickly. We will have to model it more closely once we understand more about where redundancies may fall, but we can run things forward. The Auditor General for Scotland has done some good work on future pension liabilities.

**Alasdair Morgan:** Earlier Mr Beveridge talked about what would happen if savings overshoot and about the need for capital investment. Two of the Government's objectives are to balance the budget—which it must do—and to stimulate economic growth. Is it your assessment that choosing to make more cuts than would simply balance the budget, to allow one to put more money into capital investment, would be better for economic growth and help us to get over the unemployment that will be caused elsewhere?

**Crawford Beveridge:** We were very concerned about the size of the cut to the capital budget. In cash terms, it is roughly the same in the next year as the cut to the revenue budget, so proportionally it is very large. We know that capital spending, especially on infrastructure, creates jobs at the rate of roughly 850 jobs to £100 million of spending. We need to decide whether we are able to accept the proposed changes to the capital budget.

The other important issue is that we could not find a good Scotland-wide, functionwide capital clearance programme that sets priorities and draws conclusions about where the Southern general hospital sits in relation to the new Forth bridge, the Aberdeen ring road or another new hospital somewhere. Capital spending is not well strategised at the moment. If we could do a good job on strategy, we might be able to figure out whether we need to take more savings from somewhere else, to turn them into capital spending. Pulling that together is complicated. We did not look at the other piece of capital, which is the huge maintenance spending that is required in Scotland because we have many older schools, hospitals and so on, all of which require capital spending to keep them up to date. Government needs to make a lot of decisions in the area to determine the best way forward.

**Sir Neil McIntosh:** Yes. The other facet of that is that we are, obviously, looking at the Scottish Water question and whether a capital gain of anything up to £3 billion could be achieved. When one considers that and thinks about what could be done with such capital, perhaps by directing it to small works throughout the country so that employment opportunities would be created throughout the country, and perhaps even linking it to a requirement for apprenticeship engagement in the workforce that is engaged to carry out those capital works, it appears that such an approach would be a very attractive means of alleviating impacts at the local level and of upgrading, or simply controlling depreciation in, the nation's assets. There are possibilities that flow from that.

**Bob Doris (Glasgow) (SNP):** Good morning, gentlemen. I congratulate you on the work that you have put into the review. The fact that it makes complete, uncomfortable reading for everyone who picks it up—whether politicians, people in the Parliament, the Government or councils, or members of the public—is testament to your work. The review should make uncomfortable reading because there are no easy choices—that is clear from reading it. We know that there will be a 12.5 per cent cut in real terms to the Scottish budget by 2014-15—that nicely crystallises the problems that we have. There will be costs. We can mitigate and try to minimise them, but there are no cost-free options.

I am going to ask about staffing, too, unfortunately. We have talked about workforce planning, but I have a couple of supplementaries to Mary Mulligan's line of questioning.

How imaginative have local authorities and the unions been on workforce planning? It has been put to me that, in education in Australia, for example, there is a model in which a person can accept 80 per cent of their salary over a five-year period and get the fifth year off—they do not have to go to work then. That allows the education authorities there to plan ahead for the fifth year with their workforce management, and it allows opportunities for new recruits to come into the sector in the fifth year. That is one example of how part of the bill could be reduced in local government planning. It is clear that that option is not for the lowest paid, who could not afford such a reduction in their salaries, but it is just one example of how to do things other than by getting workers out of the door. We want to sustain employment. The example may or may not fly in Scotland, but has there been enough imaginative thinking in local authorities and the unions?

**Crawford Beveridge:** It would be great if we had a quick look at some of the imaginative Government schemes that exist in different parts of the world, as they are the third piece. We have mainly looked at ensuring that people understand the stark trade-off between pay restraint and workforce reductions, but, in fact, there is a middle ground. There can be different forms of flexibility in individuals' employment contracts, in who does what jobs, and in the extent to which people are willing to overlap in jobs in some circumstances. It would be good if we took a much more imaginative approach.

**Sir Neil McIntosh:** Imaginative thinking tends to benefit from situations in which people are under pressure. They then have to look for options that perhaps they did not have to look for previously.

Bob Doris is absolutely right to give the example that he gave. Various other examples are out there and are available. Perhaps people who are reaching their later years of employment would be quite happy to step back to a three-day or four-day week, although pension issues and everything else that flows from that would come into play. There can be work sharing, and there is the possibility of people engaging in voluntary activity for part of the time towards the latter end of their careers to support the voluntary sector. A range of possibilities exists.

I would not want to judge what has happened in the past, but it is absolutely right to say that it is imperative that all such matters are explored to the full as we look to the future. My impression from the submissions that have been received from the Convention of Scottish Local Authorities, the

Chartered Institute of Public Finance and Accountancy, the Society of Local Authority Chief Executives and Senior Managers and the Association of Directors of Social Work is that a lot of imaginative thinking is going on, not only on how to cut existing services, but on how to plan for future needs. Arguably, that is more important as we look to the future.

**Bob Doris:** Thank you. I am certainly keen to see that happen.

There must be a way forward on partnership working between the unions, which rightly negotiate on behalf of their members, and local authorities. The priority for me is to sustain employment—to keep people in employment where possible. When this committee talks about local government, it is clearly talking about public sector employment.

Every public sector job loss has a cost not only to front-line delivery but, if the person who loses their job goes on to benefits, to the taxpayer. It can cost anything up to £12,000 a year to sustain an individual on benefits. Some people do not earn much more than £12,000 a year in their public sector jobs, but the United Kingdom taxpayer has to pick up that bill and that money is taken out of the economy. Has there been enough partnership working between the UK Government, the Scottish Government and local authorities to determine the cash benefit of working together to sustain the workforce within the public sector?

**Crawford Beveridge:** You are absolutely right. The estimate is that one gets about 60 per cent of the gain from a redundancy because of the benefit cost. That, of course, comes through the UK Government's budget, not the Scottish Government's, so one could argue cynically that we do not need to worry about it. However, if we look at the matter in sensible, UK terms, we need the partnership that you are talking about.

I have no idea whether it is possible to have that partnership, as everybody gets busy with their own things. However, if we have to go through everything together—not only in England but in the devolved Governments in Wales and Scotland—and there is going to be a collective cost, it seems sensible to me that everybody should try to stay linked about what is going to happen.

**Bob Doris:** That is interesting to know. There is an irony in the fact that, if we sustain jobs in the public sector in partnership between Scottish local authorities and the Scottish Government, there is a cash benefit to the UK Government. We need to think imaginatively about how we use the budgets of the UK Government, the Scottish Government and local authorities to sustain employment. I think that there is scope for that and I hope that the UK Government would be open to considering that.

I move on to questions about the council tax. I understand the frustrations of local authorities that wish to increase council tax levels. It becomes a political decision about whether to freeze it. If council tax were increased, I would be worried about the families that have benefited from the freeze over the past three years.

Is there a compromise position on a council tax freeze? If the Scottish Government can find the money for a freeze over the next three years—I think that you estimate that it would cost £490 million—would there be a way of giving some local authorities the flexibility to get some benefit from that £490 million and increase their council tax at the margins while local authorities that go for a full freeze benefit more substantially? In other words, is there a middle ground in the debate?

**Crawford Beveridge:** As you know, £70 million a year has gone to local authorities to help keep the tax level frozen. All we were saying was that, if the Government was under constraint, it might want to claw back some or all of that, so it would make sense to allow the local authorities to make up some of the gap through different forms of charging or the council tax itself. It is not clear to me that it would have to be the same in every council area; there ought to be some negotiation for flexibility in the middle.

I do not know how much the Government might be willing to spend on continuing the council tax freeze, so that question needs to be addressed early. It is plain that, the less the Government is willing to pay, the more pressure there will be to increase the local taxes to make up the shortfall that everybody will feel.

**Sir Neil McIntosh:** We are not a budget review panel any more, so we can have different views without there being an issue with that. I would be all for clarity.

The underlying principle of the council tax is that local authorities are accountable for money that they raise from those within the community who vote for them and that they are responsible for spending that money in their own ways. I understand all the reasons why a freeze in the council tax would be attractive when the resources to do it are available, but I would think that, at present, the tax is a perfectly reasonable way of letting local authorities get on with addressing their local priorities and justifying what they do while, at the same time, easing the Scottish Government's financial pressure and enabling us to apply the money to other pressured areas or needs.

Politically, there is always room for compromises but, from a practical operational point of view, I favour clarity. COSLA, which represents a range of interests, has asked for the council tax freeze to be lifted.

10:45

**Bob Doris:** I have one final question on council tax. I am sure that my colleagues will want to have their say on the issue. In the past three years, the money that has been used to fund the council tax freeze has been the equivalent of £420 million, if we look at the baseline budget funding. In effect, that was £420 million that council tax payers did not have to pay. It was £420 million in their pockets that otherwise would not have been there. That was spending power for many working families in our communities who do not earn a lot, and money that they then put into local businesses and high streets. That has fuelled the local economy in many respects.

Has any work been done in the past three years on the benefit that there has been to the local economy and families from that £420 million? Just as importantly, we are talking about sustaining local businesses and families in tough times. What kind of damage could the loss of at least £490 million—the extra amount that council tax payers in Scotland would pay if we did not have a freeze—do to high streets across Scotland?

**Crawford Beveridge:** I am not aware of any specific work that has been done on that, although Neil McIntosh might be more able than I am to answer the question. The report says that we would need to crystallise the moneys that have already gone, so that we would not cut back moneys that councils had already received. However, I am not aware of work that has been done to show the benefits of the freeze.

**Sir Neil McIntosh:** Nor am I. Obviously, that money coming from national Government also comes from taxpayers at the end of the day, so there is an offset in that respect. As you know, there is an element of protection in the council tax system for those in the lower income groups, so the situation is not as dramatic as it might seem. I made the point previously that there are no easy options. Lifting the council tax freeze is an option and it is proper that it should be considered in the way that you mention.

**The Convener:** We have discussed the public sector workforce at length, but have you had any discussion of, or has any work been done on, the impact on the voluntary sector? It is right that we should mention that, given that we have had lots of representation on the existing cuts agenda, which is impacting on the voluntary sector. Do you have an indication of how the sector will be affected by the cuts?

**Crawford Beveridge:** We spent time with the Scottish Council for Voluntary Organisations as part of our discussions. It is concerned that cuts in Government are likely to affect voluntary organisations seriously. The assumption is that a

local authority, when faced with the choice of having to make redundancies among its people or having to cut back on the amount that flows to the voluntary sector, might go in the latter direction.

We were clear that it would be useful not to have any big ideological position against the voluntary or private sectors if that is where the expertise lies to provide services for the community in the way in which we want. I hope that, in future discussions, we will understand that there are many skills in the voluntary sector and that we ensure that they become an integral part of whatever plan we put in place to achieve the shape of public service that we want.

**Sir Neil McIntosh:** I declare an interest, as a former convener of the SCVO. There are two issues. One is about the voluntary sector and the immediate cuts that we can see coming in the next one to four years. There is a danger that cuts will undermine the voluntary sector's ability to respond to the current needs. That does not mean that the voluntary sector should not consider efficiencies and how it is structured, looking to the future.

The second issue is that we are not talking only about cuts against a level of service that does not have to change. As the committee is well aware, we are talking about changes in the whole democratic nature, and we are looking to the future. Our very clear voice is saying—the committee has heard this in submissions to it—that we should look for changes in the way in which we approach the delivery of public services and the way in which people are sustained in the community.

We have identified what we believe should be a mainstream role for the voluntary sector—and the private sector, where possible—in the delivery of those services. There is also a need to consider how the voluntary sector can develop in order to take that work forward. The number of people aged over 65 will increase substantially over the coming years, which tends to be seen as a problem because it means that more care and support will have to be provided. However, those people could also be a tremendous asset in adding to the number of people who will be available to the community and anxious to contribute. The voluntary sector will have a critical role to play in addressing growing public needs in a situation in which resources cannot grow to the same extent.

**The Convener:** So, you see the proportion of services that the voluntary sector workforce delivers for local government growing rather than diminishing.

**Sir Neil McIntosh:** In terms of need, looking to the longer term, I think that that is highly probable. In some ways, it is desirable against the backdrop

of a requirement to provide for so many more people who will want to access local services.

**Jim Tolson (Dunfermline West) (LD):** Good morning, gentlemen. I am grateful for your review, which is a breath of fresh air. I will quote briefly from the review, to highlight that in relation to a subject that we have just been talking about with Mr Doris—the council tax freeze. The review states:

“The Scottish Government and Parliament should consider the option of discontinuing the current council tax freeze, which does not appear sustainable in the projected economic environment.”

You will be aware of this, but sometimes, in talking to members of the public, I find that many of them are not aware that the council tax makes up only approximately one fifth of the overall budget for local authorities. If, for example, there were a 5 per cent increase in council tax, that would equate only to a 1 per cent or so rise in the overall budget to run the local services that many of us need in our day-to-day lives. It is very much a carrot and stick that the Government has put before the public and local authorities, over the past few years, in suggesting that the 32 local authorities could have a share of the £70 million or they could raise council tax levels themselves. So far, all local authorities have chosen the carrot option rather than the stick option, which is why we have ended up with the figures that Mr Doris cited earlier, which are quite reasonable. However, in that context and looking ahead, do you feel that substantial increases in council tax are unavoidable given the budget pressures that local authorities will face over the next spending review period? If so, what rise in council tax levels would be required to sustain good quality services here in Scotland?

**Sir Neil McIntosh:** That is a very penetrating question, in which you raise several points. My answer will be slightly broader, for the moment.

The issue is where taxation comes into play rather than simply reductions in costs. As you know, the STUC and Unison, in particular, have advocated a strategy whereby cuts will not need to be made if tax levels are raised—it is as simple and straightforward as that. That is a genuine alternative, although it is not readily available to the Scottish Parliament in that flexibility of only 3p in the pound exists for it. There are, nonetheless, political judgments to be made about what people are prepared to pay for. The argument has been advanced that a Scandinavian-type system in which there are high taxes, a high quality of services and universal provision can be carried through in those countries because it has the support of the people. However, I would not say that we, in Scotland, are in that setting as things stand, and the reality is that the issue must be

addressed in current terms. On the point that you make, I could not cite the percentage increase that would be necessary.

At the moment, we are tending to see reductions of 10 to 12.5 per cent as dramatic and, quite properly, something to be addressed. However, if you were to say to organisations generally that, in four years' time, they would have between 88 and 90 per cent of the money that they currently have, that would still be a massive amount of money being spent on public services. You could argue that the objective is to ensure that 90 per cent of the money can deliver 100 per cent of the services. We could look for that; however, growth in demand is the issue that could throw that completely and, from that point of view, it is necessary to address the other issues.

I am sorry, but I cannot give you a specific answer.

**Jim Tolson:** I appreciate that. That is still a helpful answer, however. Bearing in mind how I outlined the question and the statistics that we have been discussing, we should note that the Government's £70 million equates to saving a council tax rise of approximately 3.7 per cent, according to the Government's figures. As I intimated, however, that would be less than 1 per cent of the whole budget.

We speak about services, which form a key part of what local authorities are there for. They are provided largely through manpower—teachers, road sweepers or anybody else. That manpower is there to provide public services—hopefully good-quality public services, even in the current financial situation.

What measures might be needed to ensure that people on lower incomes are not disproportionately affected by potential changes in council tax and by the effects on our public services?

**Crawford Beveridge:** Again, that is not an easy question to answer. If we go down the route of an increase in council tax, we need to model it very carefully. We have let people believe that there is a level of council tax that they can depend on. If council tax levels were to rise slowly—even if it does not provide the Government with a huge amount of the required savings—we would need to find ways to help those people who genuinely could not afford it.

When the council tax bands move, everything moves at the same time—if I understand the present system. There is a question in my mind about whether there might be a mechanism by which we can allow those people who might be able to afford to pay more council tax to do so, by having the bands at the higher end moved while the ones at the lower end did not move. I do not

know what legislation it would take to achieve that, and whether it would be possible, but that seems to be the sort of thing that we need to explore. If it is not possible to use the taxation system, that would be one way to get a more normal tax rate levied on the higher-income people in society without touching the ones at the lower end.

**Sir Neil McIntosh:** We have touched on universal services, and we are posing the question whether those people who might be able to pay for some services that are currently delivered free could be asked to do so, if it helps to protect and provide for the generality of the services that are currently available. It is a fundamental question.

**Jim Tolson:** I thank both the witnesses. Mr Beveridge touched on a possible change to council tax bands. That has been suggested, and the idea comes round every several years. Like with the recent review of business rates, that could have a severe impact on certain members of the community. I would not expect you to give a reply to this point, but the way forward might lie not in a review of council tax bands but in a total review of how we fund local government, be it through a local income tax or any other type of funding mechanism.

**Crawford Beveridge:** As I understand it, one of the rationales for freezing the council tax for a while was the potential for some form of local income tax, as an alternative. As we have said before, this is a time for real creativity. There is an opportunity to discuss how we can do all the things that we want to do and raise the moneys that we need to raise but without disadvantaging the people who are most in need.

**The Convener:** It is pretty complicated. Mr Doris and Jim Tolson have discussed it. This is not a direct analogy, or even a good one, but previous UK Governments said that they would deliver £2 of spending cuts for every £1 of tax increase. The present Government says that it will deliver £4 of spending cuts for every £1 of tax increase, so we understand that the Government will cut rather than tax. Previous Governments said that they would tax rather than cut. Where is my headline about what we are going to do? Will we cut X, or will we use tax to bridge the funding gap?

For me, there is no shorthand in all this. It becomes convenient to have all sorts of things in the mix and all sorts of choices, but the basic principle is missing. Will we seek greater taxation through charges, whereby those who can afford to pay do so? That could apply to the full range of things, not just what the Scottish Government has introduced over the past couple of years. There is personal care, for example. There is no shorthand about the principle. There are questions about using tax-varying powers, council tax and so on.

11:00

**Crawford Beveridge:** Let me try a little longhand first and then we will see if we can get to some form of shorthand.

**The Convener:** Go on. Help me, please.

**Crawford Beveridge:** The rationale behind the UK Government's use of the 4:1 ratio becomes plain if you consider, as we have, what other countries with large amounts of debt have done to get out of the situation. There is a lot of evidence that cuts to expenditure get you out faster than simply raising taxes. Whether or not you agree with it, there was a rationale behind the Government's approach.

However, we have a lot less flexibility. Although we could use the 3p in the pound tax-varying power, there are two problems with that. First, we do not know what will happen with Calman and I suspect that Her Majesty's Revenue and Customs would be loth to start moving on a system that would allow Scotland to raise those taxes in the short term. It is next year that will really kill us, and such an approach will not help. Even if HMRC was not worried about Calman, our information is that it will take a year to 18 months to implement something. Those kinds of taxes will simply not do it for the year that we are so worried about and that first £1.7 billion that we have to save.

All that we have left, then, is charging and the council tax, and given the small amount raised by the council tax and any likely charging that could be implemented, it seems to me unlikely that you could shift the balance away from cuts enough to make such a move meaningful. You could certainly try, but the headline is that there is not a lot of flexibility to raise revenue. There is some, but compared to the £30 billion or so that Scotland spends there is just not enough to make it meaningful.

**Sir Neil McIntosh:** I totally agree. The UK situation is set; Scotland has minimal tax-raising powers; the 3p in the pound could not come in next year—and, in any event, a whole range of other things would have to apply; and increases in council tax produce a very small amount of money against the general amount. The reality is that there will need to be cuts in expenditure. The objective will be to try to sustain services, but there will be cuts in available resources. Organisations throughout the public sector have recognised that and are at this very moment busy planning for those cuts and making assumptions. To be candid, I think that the public expect the same, but they want to know what the cuts will be and where they will fall. As politicians, you will have to take some very difficult decisions about how to balance the equation and we have tried to

assist that process by setting out in our report as many of the issues as objectively as we can.

**John Wilson:** The Scottish Government's tax-varying powers have been referred to. I point out that although the powers are set out in the Scotland Act 1998, the previous Scottish Executive was informed that if it decided to use them money might be deducted from its block grant. Those powers do not come at an easy cost. Even if you raised taxes by 3p in the pound, the UK Government might well cut your block grant proportionately.

We keep referring to the budget of the UK Government and the Scottish Government, but we are forgetting the individual household budget. No matter how income tax, the council tax or whatever is applied, we expect the general public to pay for it and the question is whether they can afford to do so at the moment. After all, it is not just the UK Government or the Scottish Government, but individual households that are trying to deal with the recession. Seeking to offset the impact of cuts to the UK and Scottish Government by raising more money from individual households might be disastrous in relation to what we are trying to achieve. Cuts at Government or local authority level might be necessary, but increasing the expenditure of individual households might drive us into bigger problems. For example, the committee has previously discussed the potential number of repossessions. We have talked about local government redundancies, which will have an impact on other services and lead to redundancies in the private sector. As a result, income levels in the communities that will have to pay proposed council tax increases or other increases that may be applied will be lower.

**Crawford Beveridge:** I could not agree with you more. Already those in employment are facing higher national insurance charges, VAT increases and so on, so there is already tremendous pressure on households. That is why a critical set of decisions are required about the extent to which council tax increases and charging for services can be applied. Like Neil McIntosh, I would love to pay more tax and to be charged for things, as there are many things that I do not need and I would prefer colleagues in Scotland who are in greater need to get the money. It would be useful for us to think about finding ways of doing things differentially and targeting the places in which we want to ensure that people are protected.

**Alasdair Morgan:** I want to pick up that point. You suggest implicitly that, although charging may be part of the answer, it will not make a big contribution. You mentioned certain areas specifically. It strikes me that, in some areas, administrative alterations may be made quite

simply. For example, it is easy to raise the age of eligibility for concessionary travel on buses. However, it is much more complex to introduce means testing for the scheme, as you need to put in place another bureaucracy that does not exist at the moment to administer it. When the community charge, to give it its Sunday name, was introduced, a bureaucracy had to be created to give compensation to people who were lower paid.

Would such an approach fly in the short term—over a year or two—for those benefits that are delivered at the moment without reference to people's income, even if there were a will to do it, and at what cost? Given that we are dealing specifically with local government, are there any other council services for which we do not charge at the moment that could realistically be charged for and where charging would make a difference that is worth a damn?

**Crawford Beveridge:** I will let Neil McIntosh answer the question about council charges, about which he is much more knowledgeable. You are right to say that in the report we steered away from suggesting means testing; we heard some useful pros and cons from Professor David Bell. However, we may want to consider what people call passporting. If you can figure out that someone has already been approved for some form of benefit, they may be able to move automatically into others, whereas those who have not been so approved may not.

You are right to say that the easiest area to tackle is concessionary travel. The age of eligibility can be changed or free travel can be disallowed until 10 in the morning, as happens in England, so that it does not interfere with people going to work; those are easy measures to take. The question is, are there other creative ways of attaching benefits to something that do not require the huge bureaucracy of means testing—which people hate—in order to make a difference?

**Alasdair Morgan:** The difficulty then—I realise that there are difficulties with everything that we are discussing—is that the cut-off that many people face when they move off benefits becomes even more stark and the incentive to stay on benefits becomes even stronger, because people lose so much by moving off them.

**Crawford Beveridge:** That is correct. This is an extremely complicated area. Every way that we look at it, there are reasons why we cannot move. There may be things that we can do at the margins, but they may not be worth doing. As you said, with concessionary travel, the easy thing is to raise the age of eligibility to 65. That would save us £40 million. Would that relatively small amount end up being worth the ill will that we would cause in the population at large? We cannot make such



decisions; you need to make them for your constituents.

**Sir Neil McIntosh:** I agree totally on the broad range of issues. It would be wrong to assume that there is a major pot of gold to be gained from charging for local government services. One danger of raising charges is that we start to exclude people from services. Income may rise, but the number of people who access services may drop, which is not attractive.

It is a reality that while local government and public services did not get the country into this mess, in many ways they are being looked to to underpin the recovery. That is inevitable and not something that we can complain about. It is also worth bearing in mind that, for local government and public service employees, a pay freeze actually means a cut in income when placed against growth. So people in that sector will have to address the external increases when their income is not increasing. That is the price that is being paid, and that is why the trade unions will, understandably, advocate taxation as a means of not necessarily addressing the whole issue, but of trying to compensate for at least some of those points.

**Patricia Ferguson:** It strikes me that your report offers many options that might be considered on how the economy will be structured and how public services will be affected by that. However, those options probably need a lot more discussion and consultation, and they are not likely to be put in place at an early point in the calendar. Meanwhile, cuts are already going ahead in many areas in the public sector and we know that those who are most vulnerable in society are those who depend most on the services provided by the public sector. How do we protect those people? The cuts will be what happens, rather than any of the other measures that you have outlined as possibilities for the restructuring of finances in the public sector, at least in the short term.

**Crawford Beveridge:** The impression that I have from the work that we have done so far with COSLA is that it is mindful of that. Of all the groups that we have talked to, COSLA has gone furthest in modelling what will happen—particularly because of the demographic shift in Scotland—how many more people we will have to care for, and at what levels in society. COSLA is already trying to target cuts in ways that will not affect particular groups of people.

As we move forward, I hope that all the other services will try to do the same thing and ask themselves how they do their modelling so that they can understand more than just how they get through next year. To that effect, one of the things that we have not discussed much this morning is

the fact that, even though it was not in our remit at the end of the report, we put in a chapter that made a strong plea that, in parallel with fighting the fire that is coming at us just now, we should look at the shape of the next house that we want to build. If, as Andrew Goudie suggested, we are in a 10 to 15-year phase in which large amounts of money will be coming out of the Scottish economy, we need to decide what the shape of public services will be as we come out the other end. What will be the role of the individual or the voluntary sector? Where will the private sector fit in to all that? The more we can get that discussion going in parallel with the cuts, the more we can understand what we need to protect today, because we want it to grow at the other end. I assume that the most vulnerable people is where we will put an awful lot of that thinking.

11:15

**Sir Neil McIntosh:** Absolutely. I was struck by the Association of Directors of Social Work's submission to the review. It is a considered document that points out that we face a major issue in the short term and there is likely to be a tightening up of access to some services. In other words, social work will concentrate on the most deprived and, as we move forward, that could well mean that some people will have problems to face. The ADSW raises a range of points on that.

I do not want to interpret what the ADSW says, but it chimes with the idea that we have reached that the immediate year or two years will put us in the situation, which happens from time to time, where cuts have to be made to arrive at a balanced budget. We will have to do that in the best way possible, which might mean that some standards might have to adapt or be adjusted, or they will be impacted upon for some time.

What is important is working out how to get through that and address the issues that you talk about. Crawford Beveridge touched on the message that came across from most contributors, which was, "For goodness' sake—do not just look at the salami-slicing sharp cut for a year or two." They said that we should look forward, because needs are changing. That involves a range of matters such as re-enablement—a term that is used in social work; the early years; prevention rather than institutionalisation; and support in the community.

It is also important to look ahead to the shape of services and to local government and public service structures and to have a template towards which people can work. Within that, we must work together more and more to address the issues that will come along the track. The big issue is not simply a shortage of resources but a potentially massive increase in needs, if they are addressed

in the same way in 10 years' time as they are today. The emphasis must shift.

I am sorry—I have gone on a bit.

**Patricia Ferguson:** No—what you say is interesting. I hope that we do what you describe regardless of what is happening in the economy.

We can refocus and reshape for the situation in 10 or 15 years' time—or even five years' time—but my worry is that, in the very short term, if redundancy packages are offered and if someone's social worker takes a redundancy package and is not replaced, does that mean that they are left without a social worker? How do we ensure that such people—not necessarily as a huge group but as individuals with individual problems and challenges—do not pay the price for all this?

**Sir Neil McIntosh:** I assume that that point is being addressed in local government. Councils are more and more likely to have to address such issues and to consider ways of accommodating them. Councils will consider where they make cuts to achieve that aim.

There is no overall answer; the response relates to individual circumstances. Everything that I have seen in the submissions to the committee flags up that point, which is recognised and must be addressed. What is important is keeping an overview of what is happening and to ensure that that is done effectively.

**Patricia Ferguson:** That takes me back to my supplementary question about workforce planning, how redundancies are targeted and the people who are lost. An organisation does not necessarily lose the people whom it can spare—if any such people exist. My concern is that, in the short term, the people who have the skills and the experience will be lost.

I know that the convener has other issues that must be raised. Will you say a little more about the possible capital gains from Scottish Water to which you referred? Are they being discussed with the Scottish Government and others?

**Crawford Beveridge:** We were conscious of a strong feeling in Scotland that Scottish Water should not leave public ownership—or, perhaps I should say, that it should at least not go into private ownership. A strong sentiment is that it is not right that private individuals should be able to make a lot of money from the water that goes to Scottish homes. We tried to work our way through the subject, because an annual capital bill of about £140 million to the Scottish Government is involved. Given the depletion in the capital budget, such money could be usefully spent in other ways.

The potential exists for up to £3 billion in receipts. We would probably not receive all of

that—the Treasury would negotiate and say that much of the relevant time was pre-devolution and that some was post-devolution. Whether our share was £1 billion or £1.5 billion, however, it would be another phenomenal amount to put towards projects such as the Forth crossing.

The capital receipt would not be available quickly, because of those negotiations, so we started to consider other ways of taking the debt burden from the Scottish Government. One way of doing that is to create a public interest company, much as Network Rail and Welsh Water are set up. Under such a scheme, the body remains in public ownership but can raise debt outside. The final submission from the Scottish Futures Trust was very much on the same page on what might be done with Scottish Water.

We finished our assignment on 29 July, so we have had no continuing discussion—we have no authority for that and such discussion has not been requested. I cannot tell you what the Government's thinking is at the moment, but I am assuming that at some point it will respond to what we have said on the issue of Scottish Water and make clear what it wants to do.

**Sir Neil McIntosh:** I remember declaring the results of the Strathclyde water referendum. There was a clear view at the time on the part of the public that it wanted water services to remain within the public sector; certainly, the route that we have identified in our submissions is one that we believe can achieve that. However, when we consider the prospect of the good that could be done with the amount of resource that could come back as a capital asset—subject to negotiation and discussion with the UK Government—the issue of where we go with Scottish Water becomes a very real consideration for the committee.

**Patricia Ferguson:** I, too, remember that time. I also remember organising a demonstration against the issue, and being overwhelmed by the turnout on the day, especially as I had been told two weeks earlier that it was not going to happen. But never mind.

I have no way of gauging whether public opinion has changed since then, although I wonder whether the meeting in West Lothian that Mr Beveridge attended last night gave any clue about public or even Government thinking on the issue.

**Crawford Beveridge:** It did not. One question was asked of Mr Swinney and he said that he was not in a position to answer it at this time.

**Patricia Ferguson:** That is helpful. Thank you.

**John Wilson:** I welcome the report, but there is an issue relating to local authority financial commitments that I feel has not been addressed.

We hear about the likely budget cuts for local authorities. In your meetings with COSLA and local authorities, was there any discussion about the impact of the equal pay claims settlement? The committee is aware of the potential massive costs to local authorities of delivering the settlement. We are talking about a cuts agenda in terms of budgets to local authorities, but did they indicate that they have taken on board the cost implications of the settlement of outstanding equal pay claims?

**Sir Neil McIntosh:** Not in that sense. I am quite sure that they have; I would be amazed if that was not the case. They know what the implications are, and they will be taking the issue forward. It becomes a fact of life, if you like, to consider it in that way. I am sure that the issue is part of their budget processing. They will not have ignored it.

**The Convener:** I have one final question. This all comes down to politics and deciding priorities. COSLA has made it clear that it is not at all happy with ring fencing. How do we protect those areas that we decide are priorities? If, for example, there is a political debate and we say that there should be no charging for pre-school and nurseries, how would we protect that priority?

The other strong objection from local authorities is that health service funding will be ring fenced, with the additional cost of that borne by local government and other parts of the public sector.

**Crawford Beveridge:** It is probably easier to answer your second question first. It is for Government to decide what it wants to do. If it wants to ring fence health services, it can do that. We could find no compelling evidence anywhere that there should be ring fencing of large blocks of that sort, but if Government wants to do that, all we would say is that it needs to remember the central fact that we need to save £1.7 billion next year. Each time you say that you want to ensure that an area is protected, you narrow the choices in other areas and take some of your flexibility away. You are absolutely right—if we ring fence spending on health, everyone else will have to pay for the changes, so cuts to bodies such as local authorities will increase.

As regards how to protect some of the services that local authorities provide, I know that there is concern about ring fencing and that people would rather have the flexibility to move their moneys around as they need to. There probably needs to be a balance. We got a strong plea, not just from local authorities but from everyone, that we should keep pushing towards outcomes-based rather than input-based measurements of performance, so I think that instead of being told, “You need to ring fence this,” organisations would sign up to outcome measures that offered the same form of protection that you suggest.

**Sir Neil McIntosh:** I agree totally with what Crawford Beveridge has said. There is always a constructive tension on the issue of ring fencing. I suggest that the large-scale ring fencing of big blocks is not necessarily the best way to proceed. There are always priority areas within blocks; what is important is to establish what the priorities are.

On some elements of Government policy, there will always be a point at which Government might express a wish to develop a particular service, but in providing the money to do so, it might tell local government that it cannot just turn round and use that money for something else. A certain element of ring fencing will always come into play in such settings, but COSLA’s broad picture—that its members know the local needs and know how to address the issues, and that they will work with Government on national priorities and seek to deliver on them in the most effective way in their own communities—is a proper one. The argument for as much freedom as possible, which the Scottish Parliament would want to exercise over its resources, applies to the local government scene as well.

**The Convener:** There are no other questions. Thank you for your time, gentlemen. Your evidence is very much appreciated.

We will pause for a few moments while the witnesses change round.

11:27

*Meeting suspended.*

11:31

*On resuming—*

## Subordinate Legislation

### **Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (SSI 2010/233)**

### **Local Government Pension Scheme Amendment (Scotland) Regulations 2010 (SSI 2010/234)**

**The Convener:** I remind members that we considered both sets of regulations at our previous meeting on 23 June, and that we agreed to defer a decision on both instruments while we sought further information from the Scottish Government.

We have received from the Scottish Public Pensions Agency a positive response, which has been circulated to members. The agency accepted the merits of the committee's suggestion regarding the requirement to record and report the use of borrowing powers, and indicated its proposed method of effecting the change. Do we agree to make no recommendation on either instrument?

**Members** *indicated agreement.*

## **Property Factors (Scotland) Bill: Stage 1**

**The Convener:** Item 4 is oral evidence at stage 1 of the Property Factors (Scotland) Bill. I welcome our witnesses: David Ogilvie is policy and strategy manager at the Scottish Federation of Housing Associations; Alex Middleton is managing director of Greenbelt Group Ltd; David Reid is company secretary, chief executive's office, at Hanover (Scotland) Housing Association; and Lorraine MacDonald is vice president of the Property Managers Association Scotland. Given time constraints and the size of the panel, I propose that we go straight to questions. I hope that that is agreeable.

**John Wilson:** Do the witnesses think that the bill, if enacted, would benefit the many residents who think that factoring services are not delivering benefits to their communities?

**David Ogilvie (Scottish Federation of Housing Associations):** The SFHA welcomes the bill. We are fairly content that, by and large, the services that are provided by housing associations are more than up to the standards that are set out in the bill—particularly in the light of the fact that lately we have been doing a lot of work on the matter.

Some housing associations and co-operatives in Scotland have been thrown into a factoring role, some have grasped the role because they have seen an opportunity and some are growing factoring as a social enterprise opportunity. More than 47,000 properties under the management of housing associations in Scotland and an additional 35,000 owners receive services from a subsidiary company of a housing association, or from the housing association itself.

In the light of some failings in the sector, we sought to produce a guidance document on factoring; we sent a copy to the committee with our submission. The sector is already very well regulated under the auspices of the Scottish Housing Regulator. When that regulation is combined with the guidance, the sector is ready to go.

We give a thorough welcome to the Property Factors (Scotland) Bill, with the caveat that additional costs may arise from it. We are also concerned that excessive regulation could drive up costs for housing association factors.

**Alex Middleton (Greenbelt Group Ltd):** Thank you for the opportunity to contribute. The question is an excellent one. In effect, it covered the whole issue. The bill recognises the need for registration, regulation and resolution—which are all good things for the industry, as they are for any industry.

The bigger picture, so to speak, is that there is a lack of the three Rs in property management. I therefore welcome the opportunity that the bill or some other mechanism will allow to make that happen.

We are confused about some of the drafting of the bill. We understand that it applies to property factors. In our submission to the consultation, we made it clear that Greenbelt is not a property factor; indeed, we have been making that clear for a number of years. We have an interest in the bill, but it does not apply to us. That may sound like a pretentious thing to say, but that is our position. At the end of the day, we support a means or mechanism that would allow the introduction of the three Rs.

Other initiatives that are in place, including the accreditation scheme that is well advanced, might well achieve the three Rs. We are part of the ongoing discussions on the scheme that have moved on quickly in recent times. The accreditation scheme should be given the opportunity to achieve the three Rs. Importantly, there is a general willingness for the industry to engage in the accreditation scheme process.

I turn to the question whether the bill will achieve what it sets out to do. We appreciate the intentions that lie behind it but, in its current form, it will not achieve that. We look to the accreditation scheme to achieve the objectives of the bill, which are customer interests and how to manage them.

**John Wilson:** I have a question for Mr Middleton. Will you expand on your statement that you do not think that the bill in its present form applies to the services that you deliver? I assume that that was what you said.

**Alex Middleton:** Yes, absolutely. As we have been trying to make clear for a number of years, a property manager is responsible for administering somebody else's land—for example, common land or common parts—which is not our situation. Greenbelt is a landowner; it administers its own land. That simple distinction needs to be made. If Greenbelt is included in the Property Factors (Scotland) Bill as it stands, an automatic conflict arises with the Titles Conditions (Scotland) Act 2003.

**John Wilson:** Would any other panel member now like to respond to the original question?

**David Reid (Hanover (Scotland) Housing Association Ltd):** Hanover Housing Association's view broadly echoes that of the SFHA. We provide a factoring service to 1,000 or so retired self-funding owner occupiers in 30 to 31 developments across Scotland. Our practice is to adhere to the "Private Retirement Housing: Code of Practice", which the Minister for Housing and Communities launched last year. I have the document in my

hand; I think that the committee is familiar with it. We expect the standards in that document to be reflected broadly in the proposed code of conduct under the bill, as well as in the voluntary accreditation core standards, on which the Scottish Government is consulting. The prospect of a statutory code does not therefore present us with any difficulties. We believe that they are standards to which we should be working.

However, we echo the comments that are made in paragraphs 14 to 17 of the SFHA's written submission about funding. Our customers are particularly sensitive to cost increases because they depend on pensions and savings returns for their living income. An exemption for registered social landlords would therefore be particularly welcome if it is eventually decided to proceed with mandatory registration.

An effective regulatory regime needs to focus on areas of bad practice in the sector, and to try to take a light touch across the body of providers, if at all possible.

We note the reference to a proposed register of properties; it will be interesting to learn what the purpose of such a register is and the extent, if any, to which it is anticipated that the regulatory body will carry out an active programme of inspection and investigation rather than merely responding to complaints that are lodged about reported breaches of the code of conduct.

Those are our main concerns, but I have a final observation: we foresee a role in dispute resolution for the Scottish Public Services Ombudsman.

**Lorraine MacDonald (Property Managers Association Scotland):** My short answer is that, yes—the bill as introduced would improve standards in property management for the consumer, which is ultimately what we are trying to achieve. The PMAS supported the proposal that was made before, and supports the current proposal for accreditation. We have worked very hard and been involved with the working party during the past 18 months in support of accreditation. The bill would be another option for raising standards in property management.

The industry knows that there is a requirement to raise standards—there is no denying that—but the question is about how we go forward. The PMAS is concerned that accreditation being so far down the line and the Property Factors (Scotland) Bill being introduced has led to some confusion. There are people who were behind accreditation who, when the bill was introduced, wondered whether they should go for accreditation or just wait for the proposals in the bill. That confusion has disappointed me because of the amount of

work that has been done, and it is as if we have been taken off the tracks.

Despite that, we are behind whatever has to happen in order to improve standards. My concern would be about the costs of implementing the bill and seeing it through. I am sure that Consumer Focus Scotland will have concerns about the cost to the consumer at the end of the day, and that is a concern for us as well. I would like the proposals in the bill and accreditation to come together in some way because they are trying to do the same thing.

**John Wilson:** As I understand it, the bill is before us today because of the dissatisfaction that there has been for a number of years, particularly with the role that is played by property factors, their inaction, or the lack of transparency in the services that are being delivered. I welcome the fact that Ms MacDonald has indicated that the PMAS is going for some kind of accreditation for its members. The reality is that we would not be considering the bill if property factors had been carrying out their duties and tasks as they were expected to by their customers and the residents in the areas that they cover.

I understand that there is a slight difference between the membership of SFHA and Hanover Housing Association and the private property factor service that is delivered throughout Scotland. Ms MacDonald indicated that her members were seeking to go for accreditation. Now that the bill is before us, why do they feel that the train towards accreditation has stopped all of a sudden? Why do they not feel that they can continue to go for accreditation to complement the bill?

11:45

**Lorraine MacDonald:** They will do that. We intend to continue to support accreditation while the bill is being considered, and we will await—and, we hope, contribute to—the eventual outcome.

I understand what John Wilson is saying, but we fully support accreditation and we will take it forward. The core standards are very good and a lot of work has gone into them. We are not taking our foot off the gas on accreditation—far from it. It is just that the bill has led to a bit of confusion and negativity.

That is understandable, because all of a sudden we have been presented with something else. There is no code of conduct or set of core standards in the bill yet, so we wonder what will happen in that regard and whether it will be any different from the core standards that have been introduced for accreditation. We genuinely believe

that the accreditation standards are a way of placing a badge of honour.

I am aware of the concerns. The debate on property management that was held in Parliament was really interesting. It was good that it took place, because the subject is a constant talking point. The Office of Fair Trading inquiry also produced a good report.

The biggest problem in property management is redress; no one has anywhere to go if they feel that they are not getting a good level of service. We believe that the accreditation scheme combats that with an ombudsman service, and that it contains a good redress proposal.

The concern that arose from the debate related to rogue factors and whether an accreditation scheme would catch them. I understand that concern, and we share it. However, it was hoped that the accreditation would be a badge of honour—for example, councils would recognise only accredited managers for grants, and planners would insist that an accredited manager be appointed to manage property.

We view the scheme as positive, but I understand the concerns that it may not get rid of rogue factors, which is why we support the bill. Perhaps the bill can dovetail into the accreditation scheme in some way. I do not know; I am not a politician.

**Jim Tolson:** I seek clarification on Mr Middleton's earlier point. You do not feel that Greenbelt would be liable under the eventual act, if the bill is passed. Why is it that Greenbelt, as what is in effect a factoring company, is able to receive income from landowners for maintenance of land that it owns? I am sure that you would not like it if I asked you to pay out of your pocket to maintain my lawn, for example, but that seems to be the system that certain companies, particularly Greenbelt, operate.

**Alex Middleton:** First, there is a term "land maintenance companies", which I do not necessarily recognise. The name is Greenbelt; we identified a need and developed an arrangement through early consultation of local authorities 15 years ago. The need is that an individual must take responsibility for the land in the same way that the local authorities did. In return for the land, which services and benefits a development, responsibility is taken for administering it, whether that involves maintenance, collecting contributions, insurance, health and safety, or management.

The Greenbelt arrangement involves taking responsibility for the land. It is directly linked to and aligned with the Title Conditions (Scotland) Act 2003. In effect, the arrangement is that, in return for our taking on the responsibility and

obligation to manage the land, the title burdens require the owners who are associated with the land to make a contribution to the cost. That mechanism is quite different from a common ownership mechanism. We administer our own land, whereas property factors who operate under a common ownership-type model administer someone else's land as management.

If the bill applies to property factors in the true sense—those who administer and manage common land or someone else's land—there is every opportunity that the bill will go quite a long way. As things stand, if groups such as Greenbelt are included in the bill, there will be conflicts with the Title Conditions (Scotland) Act 2003. As an aside, I suggest that the housing associations might well find that there are conflicts with one or two other acts, such as the Tenements (Scotland) Act 2004, but perhaps those issues can be overcome. However, in our situation, it is quite clear from the Title Conditions (Scotland) Act 2003 that there will be a conflict.

**Bob Doris:** Let me start off by asking the most obvious question. Why have 53 per cent of customers of property factors had reason to be concerned about the quality of service that they receive, and why have 35 per cent of such customers made a complaint, whereas in other sectors 14 per cent of customers are dissatisfied with the service that they receive and 10 per cent make a complaint? Why is there is such a difference with property factors? What is going wrong, from your point of view? You are the people in the field who deliver the service, and customers are not happy.

**Lorraine MacDonald:** I can understand the concerns. To be honest, I am not a statistician so I never take an awful lot of account of such things, but we obviously understand that there are concerns about the industry. I have to say that many of the concerns—I will bang on about this until I am blue in the face—are due to lack of education. An awful lot of the issues and complaints about property management are due to a lack of understanding on the part of owners about what their obligations are. Do not get me wrong—I fully admit that standards in property management need to be raised. The PMAS recognises that. By the same token, many complaints boil down to—I do not mean this in a disrespectful way—lack of education. Many owners do not realise what their obligations are and what the agent's obligations are. An awful lot of the complaints stem from a lack of knowledge, in all honesty. I genuinely believe that that is part of the problem.

However, some of the complaints are due to a lack of service or poor service. A lot of those are as a result of rogue factors. Perhaps the

percentages are quite high because there are a good few rogue factors out there. As I said, we recognise that there are concerns, but by the same token—I have said this at accreditation meetings and at seminars—a lot of money needs to go into educating owners about their responsibilities for their property.

**Alex Middleton:** I am very conscious that, historically, there has been an unusually large number of what we can call complaints for just now and inquiries or concerns about the property management industry, including companies such as Greenbelt. Over the past three years, Greenbelt has introduced a customer care charter, which ensures that we attend promptly to every inquiry—whether it be a complaint, an offer to pay or a notification of change of ownership. Some 84 per cent of our inquiries are dealt with—done and dusted—within 20 days. The customer care charter is one thing that we are bringing to the table in the discussions about the accreditation scheme.

Codes of conduct are also important in ensuring that everyone understands exactly what they are doing. In the past, there were a number of codes of conduct, but there was perhaps not one consistent code of conduct to which everyone could refer. We apply service level agreements and quality agreements in a similar way to that of local authorities. There is an expectation of value. It is a quality contract.

Another thing that we have introduced in the past few years is an element of consumer choice, which, in our view, the bill does not recognise. One interesting aspect that we have discovered in relation to consumer choice is that there is a high level of reluctance to take on responsibilities for our land and its associated long-term management.

We have proactively pushed consumer choice with certain developments and residents groups. It comes down to performance on the sites and in property management. The accreditation scheme focuses on that—the code of conduct and the customer charters deal with the level of service that is provided. The scheme also introduces dispute resolution, which is the one area in which something is lacking.

There are two parties involved in a dispute, and Lorraine MacDonald made the point that many complaints come down to a lack of education. Part of the dispute resolution process is about educating those who are involved, so that each side understands exactly what their responsibilities are. A good, strong dispute resolution service would go a long way towards alleviating concerns and the impression that there is a big problem.

In the past two or three years, all those in the property management industry have come to realise that the customer element is as important as the delivery element. A mechanism for pulling that all together and looking objectively at the nature of complaints and inquiries and where they come from would be helpful for everyone.

**Bob Doris:** I accept that the sector is perhaps rushing to get its house in order before statutory obligations are imposed. I am slightly worried by the idea that a significantly high number of complaints in the sector are due to the customer's lack of knowledge. That is perhaps a reason to go further through legislation and guidelines to ensure that things such as billing are standardised, transparent and detailed.

There is a hotch-potch out there at the moment. If someone gets a bill from their factor, they must try to decipher what they are being billed for, why they are being billed and why they are obliged to pay. With regard to the knowledge gap, the onus should be on the factor, not on the consumer who is paying the charge.

I am delighted to hear that there is a move to improve things, but I am not sure about dispute resolution within individual housing associations and factoring companies. If the sector is getting its house in order and moving in the right direction, what is there to fear from registration?

**David Ogilvie:** There is a concern—I would not describe it as a fear—in the housing association sector about the challenging financial environment that housing associations will face in the next few years. In that context, there is a greater than usual degree of cost sensitivity, as housing associations are concerned about how they will manage costs in the round.

With regard to factoring, a statutory and mandatory responsibility to bring things up to a certain standard would be welcome on one level, but there will be an inherent cost involved, and we need to be mindful of that. That is probably the housing association sector's main point of contention.

I want to come back on the first question. Some useful points have been made about information and education, but the issue is broader than that. Home ownership as a concept is something that we all need to get to grips with.

We are entering an economic environment in which we will all have to take far more responsibility and make more of a financial contribution towards the places in which we live. We need to help people to achieve that culture shift, and to view their homes and communities in terms of asset management. We are much more confident of that in relation to the housing association sector, where we are looking at things

over the longer term, as part of a 30-year cycle, and trying to deliver cost efficiencies over that timescale.

If we could get more people in the private sector—the owner-occupier sector—to think in those terms, with the assistance of good-quality factors, we would be in a much better position. That answers the first question, but I really wanted to make that point.

Another point is that housing associations are regulated by the Scottish Housing Regulator, which publishes a set of activity standards for property maintenance factoring. As we mention in our written submission, the relevant SHR activity standard is:

"We are fair, efficient and effective factors for other property owners. We manage factoring funds on behalf of owners in a proper and accountable manner."

To me, that says that the SHR is already aware of the need for associations to pull themselves up by their bootstraps. We hope that there is sufficient regulation through that.

12:00

**Lorraine MacDonald:** As far as the PMAS is concerned, there is absolutely no fear of registration. We are fully behind any form of regulation or voluntary accreditation scheme that will raise standards, so there is no fear in that respect. Our only concern is that we are so far down the line with the accreditation scheme. Mr Wilson asked why we do not just keep going with that—which is fine, and I think that we will keep going—but I think that the accreditation scheme has slowed up because of the introduction of the bill. We really need to get this sorted. We need to get something out there so that people raise standards and there is a code of conduct or core standards for people to abide by. That is our frustration to a certain extent. That is why I advocate that we should bring the two things together in some way.

**David Reid:** I want to add a comment in response to Mr Doris's first question. Did he say that there was a 35 per cent dissatisfaction rate?

**Bob Doris:** Our briefing states:

"53% of owners with a property manager reported that they had cause to complain about the service and 35% of all consumers went on to make an actual complaint".

**David Reid:** Hanover undertakes three-yearly surveys of the owner-occupiers to whom we provide a service. Our most recent survey in 2009 generated a 58 per cent response rate, which I am told is quite high as these things go. Across the board, 22 per cent described themselves as very satisfied with the service that they receive, 72 per cent described themselves as satisfied, 4.4 per



cent said that they were dissatisfied and 1.6 per cent said that they were very dissatisfied. Although the survey asked a range of questions, that highlight serves to illustrate how the percentage figures that are quoted as industry averages must surely hide a wide variation among providers.

**Bob Doris:** Absolutely. Worryingly, that means that, for some factors, the dissatisfaction rate will be far higher. The figures that have been quoted perhaps show that Hanover is in quite a good place, which is all credit to that organisation. However, I am still unclear about why the development of the accreditation scheme has slowed down. I would have expected it to have sped up or to have been fast-tracked and focused on. After all, registration is effectively statutory accreditation. As I understand it, the bill should provide a powerful motive because, under the bill, any factor who is deregistered will be unable to collect moneys that might be owed in connection with factoring. That brings into focus the responsibilities that factors take on. Should not that be a powerful driver for improvement towards the best practice that Mr Reid mentioned is already provided by some housing associations?

**Lorraine MacDonald:** I do not want to get into the minutiae of the provisions under which a property manager who was deregistered would be unable to recover any charges that were due, but such property managers might have legitimate charges within their accounts that they need to pursue people for. Those provisions need to be looked at and consulted on because, with all due respect, that is actually quite unfair.

On accreditation, I have been part of the accreditation working party for 18 months. The working party has met on a monthly basis—I personally have attended something like 17 meetings, including sub-group meetings—but my gut feeling is that things have been pulled back a wee bit. It has just taken a bit longer to get to certain things. I just think that it would be great if we could use the core standards from the accreditation scheme for the bill.

**Alex Middleton:** I do not feel that the accreditation scheme has slowed down that much, as the bill has been on the go only since the beginning of June. However, the bill has raised the confusion that Lorraine MacDonald has referred to. It is absolutely right to think that we should move on with the accreditation scheme. That is the intention of all the parties.

The accreditation scheme has effectively dealt with things that are being considered for inclusion in the code of conduct in the bill, such as dispute resolution and itemised billing. It also offers an opportunity for various other aspects of property management to be examined. Perhaps the accreditation scheme offers that opportunity in

relation to registration. I do not think that any of the parties involved fear registration. We certainly do not—we see the advantages of registration and regulation, and of dispute resolution. That is partly because quality players in the industry—such as Hanover Housing Association—are in an economically sound place. However, that is not where rogue players in the industry want to be. I have led Greenbelt towards having a number of those facilities in place, and we have seen the benefits already.

The accreditation scheme should plough on. The Property Factors (Scotland) Bill covers a number of points, and it could still effectively achieve the things that Mr Wilson mentioned. It is possible that it cannot do so in its current form, as there are several conflicts, but ultimately it can achieve what it needs to. The accreditation scheme is slightly ahead, and it should not slow down at all.

**David Reid:** The devil is in the detail. Effective registration will deliver results, but I imagine that it is all too easy to go into a process with the best of intentions and for the process to take over. That would lead to a disproportionate amount of effort going into accreditation, which might require applicants to submit documents for registration and the detailed checking of policies and procedure statements, rather than the effective delivery of improvement in service standards where it is required. Sanctions should, of course, be proportionate to the offence.

**Bob Doris:** I have one more brief question; I have a feeling that other members of the committee will want to ask questions on this topic.

One of the drivers is the issue of perception and reality. I refer to some of my constituency cases that relate to the housing association movement, rather than private property factors. It is felt that some housing associations are living off the fat of owner-occupiers, with regard to the bills that are received. The owners find it incredibly difficult to get to the bottom of how the bills are calculated. I have direct evidence that, in some cases, it is impossible to find any evidence base for the amount in the bill. That practice is unacceptable, and registration and enforcement could deal with it.

I have heard similar stories from within the private factoring sector. Are you relaxed about the current billing process that housing associations and private property factors employ? I am certainly not.

**David Ogilvie:** Since you mentioned housing associations, I would like to go first. We have concerns, which is exactly why we went ahead and pulled together good practice guidance. Although there are some examples of bad practice

in the sector, there are many more examples of good practice. We are trying to ensure that everyone latches on to the good practice with regard to clear billing and making it clear that costs should not be passed on to owners unnecessarily.

The issue that you raised about perception and reality is the key. It is a communication issue, and factors and the housing association sector need to get the message through. We make no bones about the fact that some are far better than others. Where there are issues, we would expect the Scottish Housing Regulator to pick them up in the course of its regulatory function.

**David Reid:** Our practice is to invoice developments for expenditure that is incurred on that development, whether it is for repairs and maintenance, development staff or whatever the case may be, and to levy a flat-rate management charge that reflects a share of the overhead—our head office and area office—costs.

We are a Scottish charity; any cross-subsidisation between one sector and another would present us with a difficulty. It is our policy that there should be no cross-subsidisation between the owner-occupier sector, the rented sector and the other ancillary services that we provide.

**David McLetchie:** I want to explore further the answer that Mr Middleton gave earlier to my colleague Mr Tolson. Mr Middleton was keen to stress the important legal distinction between Greenbelt's model for the maintenance of common land and other models. Legal forms are important but, ultimately, as far as the customers—the neighbouring property owners—are concerned, such a model is no different from what would happen if all the common parts of an estate were owned in common by the individual house owners. In that situation, the owners would almost certainly have a property factor or a residents association that would arrange for the grass to be cut and so forth. In the model under which Greenbelt operates, Greenbelt owns the land and bills the neighbouring property owners for those services. The issue about which we receive complaints is not who owns the land but the services, and the cost of those services, for maintaining the land. Surely it is entirely appropriate that, whatever legal model is followed, everyone who provides those services, about which there are public complaints, is regulated to the same standard.

**Alex Middleton:** Well, that is one interpretation; I have made our interpretation quite clear in our submission. My reason for doing so is that assuming that Greenbelt is a property factor would give rise to conflicts with our role as outlined in the Title Conditions (Scotland) Act 2003. We are a

landowner. As a landowner, we are entitled to administer our land.

Further, the land that we administer is typically a wee bit more complex than the common ownership areas that were created in the past. Over the past 12 to 15 years, one of the concerns of local planning has been the long-term sustainable management of open space—whether it be grass or quite complex play areas or sustainable drainage systems—which requires expertise to ensure that it is managed properly. There is a need for responsibility and understanding of the land that we own, which is not necessarily neighbouring other properties but is part of the design of the development. As a landowner, we take responsibility for that and we have an obligation to manage and maintain the land and keep it safe, to the benefit of the development.

Yes, it could be argued that such areas would typically have been common land, but they are actually single-ownership land. The reason for having the land under single ownership was that there are specific requirements, obligations and responsibilities connected with the land such that a single-ownership model benefits the development and the home owners in the development.

**David McLetchie:** In the past, developments with substantial common areas such as play areas and so on would have been adopted by the local authority. The developer of the estate would have paid a capital sum to the local authority, which was meant to ensure that the council used its council tax revenue to undertake all the maintenance. There was a clear division of responsibility between the property owner and the council, which became responsible for the maintenance of such common areas just as it is responsible for parks, roads and everything else. It seems to me that, instead of the developers being required to pay a capital sum to a council to adopt on-going responsibility for the common areas—which capital sum would then have been reflected in the price of the houses or the profitability of the development—the common areas of developments have been transferred to the likes of Greenbelt, with that cost then becoming an on-going revenue obligation on all the house owners. A different structure is being used to achieve the same result, with what was previously a capital expenditure incurred by the housing developer being turned into a revenue cost that is paid on a biannual basis by the occupier of the house. Is that not correct?

12:15

**Alex Middleton:** In effect, that is the case. That is why the local authorities—initially, Strathclyde

Regional Council back in the early 1990s—set up our company. They foresaw a housing boom and saw something for which they did not want to take responsibility. As you know, local authorities want to concentrate on their core business requirements. Looking after open spaces and the responsibilities and issues that accompany that did not seem attractive at that time, so Greenbelt came along. We take on board all those matters.

We have developed a sustainable arrangement that achieves exactly what local authorities wanted in planning. The owner of a house has an obligation, but that is based only on an equal and fair contribution to maintaining the land that is round about and the safety of that land. Our average annual management charge is about £110 a year—it is about £10 a month. We look after 20,000 units. That represents a fairly major saving to the public purse, which is part of Greenbelt's purpose. Property factoring was around 15 years ago, but local authorities regarded us as an alternative then. We still regard ourselves as an alternative, simply because of our model, which achieves exactly what local authorities set out to do back in the early 1990s.

**David McLetchie:** Property factoring was around in 1992—it has been around for 100 years. Is the Property Managers Association Scotland not well over 100 years old, Ms MacDonald?

**Lorraine MacDonald:** Yes.

**Alex Middleton:** Absolutely.

**David McLetchie:** A different model could have been adopted for privately owned estates, but it was not.

I return to the basic point: the issue for individual home owners is the service. Whether you like it or not, just as they are in developments that are constructed under a pure factoring model, loads of complaints are made about the service that you and others provide under your model of ownership. In response to those complaints, we are being invited to address the system in the round. The public would see our doing so as perfectly equitable and reasonable.

**Alex Middleton:** You are more than welcome to visit Greenbelt and to see the facts about inquiries: the nature of inquiries, how we divvy them up, how we respond and how quickly and effectively we respond—our performance.

We have just conducted a survey on a new bill format, which I would share with the accreditation scheme. I am not sure of the exact figures, but the survey was favourable about the level of information that we provided. The bill was understandable and our customers were comfortable with it. I am sure that one or two other agencies are looking into that system, too.

You are welcome to come and see what the situation is with inquiries in September 2010—what we have done and what we have achieved in the past year or two. We were always conscious that the Greenbelt model was new—it is for the 21<sup>st</sup> century. We must undergo a cultural change and move on. Ultimately, it is all about ensuring that everybody who is included benefits equally and fairly. One issue of which we are aware and which has not been touched on is that, if a minority does not pay for a service that is being provided, that compromises the arrangement. We and property factors face that. Being equal and fair is an obligation.

We have a huge incentive to provide the quality, the service and the delivery. We have—down to the last person—worked hard on that. We do not want to spend our annual management charges on debt management, because that compromises the majority. We want to achieve a balance in which everything is run smoothly and value for money is obtained. That happens after three or four years on our developments. When we operate at a development that is three or four years old, we have 100 per cent payment—no problem. That is the situation that we want to be in. When the situation is new and when new home owners are perhaps not quite used to the model, questions are asked and members might be involved in finding out what the model is. I am keen to educate people about the arrangement and to let them see its benefits.

**David McLetchie:** The complaints that we get are not from people who do not pay your bills; they are from people who pay them but think that they are too high and people who, by and large, would prefer an alternative arrangement and a measure of competition in the provision of the service that they receive on their estate.

If the majority of owners on an estate where you own the common parts came together and said that they did not want the present arrangement any more and that they wanted to employ a factor or organise their own grass cutting and maintenance of the common parts, would you accept that decision? Would you transfer the land to an appropriate new vehicle or into the common ownership of all the house owners, or would you basically say, "No. We own the land. It's in your title deeds. Tough. You've just got to carry on paying." What would happen? In other words, would you allow competition and choice?

**Alex Middleton:** The answer to that is yes.

**David McLetchie:** Have you done so?

**Alex Middleton:** We have been proactive in trying to help residents on some developments take on the responsibility themselves by taking ownership of the land through our consumer

choice option. My colleague Wendy Quinn has held the hands of people on one development all the way up to the point of saying, "Sign on the dotted line and it's yours." In every case, we have found a reluctance to take responsibility for the ownership of the land and what is on it for the long term. The option that you describe is available.

**David McLetchie:** Is that the policy of the company? If the owners on an estate are unhappy with the legal structure and the arrangements that are written into their title deeds, you will facilitate the transfer of ownership of your land to a new ownership model so that they will no longer pay Greenbelt for its services. You would be quite happy to facilitate that.

**Alex Middleton:** We would do that. Several requirements have to be met when a transfer of land or property is carried out. As a professional company, we ensure that that is done diligently. In your profession, certain diligence checks have to be done; we would do those as well. One is to ensure that insurance can be secured if someone intends to take ownership of and responsibility for land. Another is to ensure that they understand the planning consents and conditions that are associated with that land. Another is to do with whether they have the expertise to do the work themselves or a management arrangement that is sufficient. A residents association is an example of a body that is constitutionally set up, to which papers could be signed over.

Our website is quite clear about consumer choice. I have said publicly that we allow for consumers to make such a choice, but we find that there is a severe reluctance to take on the responsibility for doing so. That comes back to the point that was made earlier. It is a question of service.

**Alasdair Morgan:** I have a quick supplementary. If there was a sustainable urban drainage system, or SUDS, on one of your developments, you would have a legal obligation to maintain that appropriately. If you went down the transfer road that Mr McLetchie suggested, how would the wider public interest of having that SUDs maintained properly be served? How is enforcement of that taken care of, or would you not consider transferring a property that had a SUDS?

**Alex Middleton:** If we are talking about responsibility and taking ownership of land, the SUDS obviously goes with that because it is on the land. We would ask any residents group a number of questions, including whether the residents were aware that there was a SUDS on the land and whether they knew what its function was. We would point out that they would need to manage it in a way that did not allow flooding not just of their homes but of the homes of everyone

on the development. We would ask them whether they understood that and if they said yes, then fine—the responsibility would be theirs. That is the point about land. We will not pick and choose what people have and what they do not have—either they take responsibility for it or they do not. I think that that is fair. I am quite happy to consider the point that was made earlier. I have said publicly, "Yes, do it, by all means." However, our experience has been that there is very little appetite for taking that responsibility.

It comes down to the code of conduct, the quality of the work, the agent's responsiveness and a swift and effective resolution service that does not drag on and does not involve the courts. We heard recently that one or two of the courts are pretty full right the way through until the other side of Christmas. For people running a service in a small claims court, taking six months out of the process affects the equilibrium of the business. A dispute resolution mechanism is therefore a good thing for the industry.

**Mary Mulligan:** Good afternoon to all of you. We will perhaps request a history lesson from Mr McLetchie on compulsory competitive tendering at some stage and why we got to the current situation with land and open space maintenance. However, we are where we are.

Do the witnesses accept that some property factors or managers—whatever you want to call them—do not behave in the way that they should in delivering the service that they should deliver? If that is the case—I think that that is what you have said—how many of them do you think would sign up to a voluntary accreditation scheme?

**Lorraine MacDonald:** To be honest, the likelihood is that not many of them would do so because a voluntary accreditation scheme would contain tough core standards. It would include service level agreements and response times for various things and would be very detailed. Members have probably had a look at those things. The chances are that not many such people would sign up to such a scheme. Earlier, I said that I can understand the process and the idea behind the bill of trying to encapsulate and deal effectively with the rogue factors who are out there. I am sure that a substantial percentage of the complaints that are made are about the rogue factors. I do not think that they would sign up to such a scheme, but it is clear that the bill will deal with them.

**Alex Middleton:** The question is interesting. What is the point of having an accreditation scheme if it is voluntary? I have gone on record as saying that there could be a mandatory scheme. I would support that.

That takes us back to a point that I made earlier. It is in the agencies' interests to provide quality delivery because that is how they will survive in the long term. If an agency is doing shoddy work or underdelivering, its long-term business interests are not being looked after.

A scheme could be made mandatory, or at least an attempt could be made to make the choices recognisable. If, say, a developer is choosing whom to appoint or residents want to reappoint somebody, they could have a register to look at. Electricians and people in other trades are registered and have accreditation, and other countries have accreditation schemes. People simply need to look at the choices that exist and be assured that there is a definite quality mark. That should be sufficient to separate those who do not want to be there and those who do.

**Lorraine MacDonald:** The redress proposals are part of the point of an accreditation scheme and one reason why the PMAS is so behind a scheme. An ombudsman would address matters. It is almost like a dispute resolution. The property manager against whom the complaint is made will pay for the initial complaint or for the investigation to take place. The process is completely separate—no one is connected in any way to property managers. There would be a completely separate body, and property managers could be fined for not providing a level of service. That is a really good system that I have been keen to see implemented as quickly as possible. If the bill is passed, a similar type of redress system will have to be in place further down the line. The biggest fear that any property manager has is not accreditation but getting fined and something costing them money. I am being flippant but, at the end of the day, we need something with teeth. The outcome has to be a system that makes property managers sit up and take notice, particularly the rogue property managers.

12:30

**Mary Mulligan:** I am sorry if Ms MacDonald feels that we have moved on from the work that the working group has done so far, because I think that its work has been good and we will want to build on it. However, an issue that arises is how we bring people to the table and make sure that they do things. I think that that is in your interests as well, because it means that people can have confidence in the service that is delivered. I think that we are all in agreement.

One of my pet concerns is about how the property factor is appointed, be it on a new estate where somebody takes on the role from the beginning or where a building has had a factor for 50 or 60 years and there is a new resident. There are concerns about how the owner can influence

the information that is provided so that they can understand what the service is, but there are also concerns about the resolution of disputes. We need to tackle those two things in the bill. Do you have any comments on how you see that going?

**Lorraine MacDonald:** I do not want to keep banging on about the accreditation scheme, but it does address a lot of the issues that people have. Under the scheme, as soon as someone moves into a flat or a house, they get a pack that says, "We are your factors. You're going to be billed quarterly. It's going to be detailed and transparent. Here's your common insurance policy. We get a commission from the common insurance policy." I am here to represent the PMAS, but my firm does that so that the person knows immediately what is expected of them in terms of their obligations, the accounts and so on, and also so that they have the information that they require about the management.

Each property can be tailored to suit the management of the development itself. There might be properties where people just want a basic management service. In other properties, it might be dictated that there are monthly meetings, quarterly meetings or whatever. Owners can influence that. I just think that there is sometimes an element of apathy. One good thing that has come out of the work is that more people are asking questions. There is probably more switching taking place now than there ever has been, thanks to the outcome of the work and the Office of Fair Trading report, because they have raised awareness.

Earlier, I mentioned knowledge. Knowledge is power to the individual owner as well. Part of the accreditation scheme is that the property manager must tell the person how to sack them. When that was tabled, everyone said, "Why would you do that? At the end of the day, they will come and ask you anyway, so why would you put it in your service level agreement?" Things like that have already been addressed in the accreditation scheme.

**Malcolm Chisholm (Edinburgh North and Leith) (Lab):** You have mentioned rogue property managers several times. How many of those are there? Is it a small number, or are there quite a lot?

**Lorraine MacDonald:** There are a few. A limited number are creating a lot of problems. Before all this kicked off, more and more were coming out of the woodwork who just do not have any structure, controls or transparency in how they deal with things. That is why we fully support accreditation or the bill. I am passionate about what I do and I sometimes feel aggrieved that we get tarred with the same brush as the rogue

factors. We really want to try to eliminate the problem as well.

**Malcolm Chisholm:** Over and above the rogue factors, is there a need to raise the standards of the main body of factors?

**Lorraine MacDonald:** Absolutely.

**Malcolm Chisholm:** I come to the issue from a constituency MSP's point of view. I get a large number of complaints about a whole range of factors. Is there not a system at the moment with a voluntary code of conduct? How does that operate?

**Lorraine MacDonald:** The PMAS has a code of conduct.

**Malcolm Chisholm:** Has that been effective in any way?

**Lorraine MacDonald:** It can be effective. People have been censured. However, the PMAS is a trade body and it does not have an awful lot of teeth in terms of being able to fine or otherwise penalise people. There is a code of conduct and it is good, but the PMAS is a trade body that acts for its members.

**Malcolm Chisholm:** Given that the code has not been very effective, can you understand people's concerns that an accreditation scheme would operate in a similar way? It would be better, but it could still be tarnished with the sense that it is voluntary and therefore not very effective.

**Lorraine MacDonald:** It is interesting that one comment made by Consumer Focus was to express concern about the delay with the accreditation. It has taken a bit longer because some people in the industry are reluctant to take it on board and host the accreditation scheme. I can completely understand that but, by the same token, it would be pointless for an organisation such as the PMAS or the Glasgow Housing Association to host an accreditation scheme when there are already methods in place for complaints that people do not have any faith in. They will see it as just being the same old same old. That is why in the working party there has been talk of, for example, the Royal Institution of Chartered Surveyors hosting such a scheme. That would be a good structure, but the key point is that ombudsman redress is what will give the scheme credibility.

**Malcolm Chisholm:** I am struggling to see why you are reluctant to move on to some legal underpinning. You have suggested that there is a conflict or contradiction between the voluntary accreditation and the legal underpinning, but in a sense the bill is trying to give legal underpinning to the kind of accreditation scheme that you have been developing. It seems to me that the bill builds

on the work that has been done, rather than being something that is contrary to it or slows it down.

**Lorraine MacDonald:** I hope that it does build on the work that has been done. I do not have a problem with the bill; I would just prefer to see everything working together so that it supports the accreditation scheme. To be honest, the process for the bill is new to me, but my concern is that the bill is starting at square one as if we do not have core standards or a code of conduct. I was assuming and hoping that the accreditation would dovetail into it.

**Malcolm Chisholm:** I am sure that it will. I think that we need to have a big discussion about the code of conduct, but not today as there is no time. Many people will be interested in what is actually in the code of conduct.

I have one final issue to ask about: switching. One issue that has come to me is how difficult it is in some cases, particularly in relatively new developments, for residents to switch from one factor to another. Do you think that changes are needed to make it easier for people to switch?

**Lorraine MacDonald:** Absolutely. I think that everyone will know that some deeds of conditions make it very difficult for consumers to transfer property managers. In some cases, it is almost impossible. They can change if they have more than 50 per cent of the owners in attendance at a meeting and so on but, given the apathy that can exist, that can be difficult to achieve.

In some cases, it is written into the deeds of conditions that one company manages the property for five years from the sale of the last flat in a new development. Again, that is very restrictive to consumers who are getting a really poor service but can do nothing about it. That issue has been discussed at the working party. Planners and other authorities could have an influence in ensuring that contracts set up in the early stages, such as the deed of conditions, are not restrictive for the consumer.

**Jim Tolson:** Mr McLetchie eloquently covered the key point that I want to ask about, which is on switching. Like many members, who have highlighted this point already, I find that a significant amount of my postbag contains on-going complaints about factoring companies—Hacking and Paterson, Greenbelt and a host of others. That seems to be where the issues are, and I hope that the bill will address some of the issues that my and other members' constituents bring forward.

Like many people, I am fortunate enough to live on an estate that was built pre-1995, as the local authority maintains the ground in perpetuity. I have no real complaints about its work, and I do not receive many complaints from my constituents

who are in a similar situation. I therefore put to the panel the suggestion that, rather than the bill covering complaints procedures and so on—which it does quite well—either this or another bill should consider changes to planning legislation to ensure that, whether it is done by a private company, local authority, housing association or whomever, maintenance is in place in perpetuity for new developments.

**Lorraine MacDonald:** Again, that issue was discussed at the working party meetings—that other people have to influence what happens in property management.

**Jim Tolson:** What was the outcome of those discussions?

**Lorraine MacDonald:** There was a general agreement on that issue but I gather that, at the end of the day, they do not have the power to take it to that level. The Law Society was represented on the working party, and it said that it recognised that there were legal issues around the need to ensure that solicitors tell incoming owners what their responsibilities are. Various people have to work together with us.

**Alex Middleton:** I agree. Local planning conditions for new developments regularly require a long-term, secure, sustainable management arrangement for the open spaces and whatever is designed into them. That requirement could form a statement in the outline planning, but it should also appear as a statement in the detailed planning, to ensure consistency four, six or 12 years down the line.

I support the point of view that has been expressed. Planning legislation might not be required; perhaps there need only be a planning guidance note to say that local planners should simply determine whether arrangements are secure and sustainable. From our point of view, we know that the open spaces that we have now are not like the open spaces that we had 15 years ago; they are much more complex now and they have diverse types of management. Sometimes, more than just landscape contractors are needed to manage the site and other contractors must become involved, such as tree managers, water drainage experts, play area inspectors and play area maintenance guys. Sometimes, we have five or six contractors working on a site.

The suggestion that you have heard is a good one. That is how you will secure the long-term management of a lot of the sites that we are discussing, which will help everyone in this room.

**Mary Mulligan:** Mr Ogilvie, earlier you mentioned the regulation of housing associations that act as factors, and I am conscious of concerns around overregulation. How many

housing associations that act as factors have in fact been inspected as such?

**David Ogilvie:** That is a good question, but I cannot provide you with a specific answer at the moment.

**Mary Mulligan:** Could you get back to us on that?

**David Ogilvie:** Absolutely.

**The Convener:** We appreciate that.

Patricia would you like to ask a question?

**Patricia Ferguson:** No. I am conscious of the time and the pressures of today's business.

**The Convener:** I thank our witnesses for their attendance and for giving evidence.

We now move into private session, as agreed earlier.

12:42

*Meeting continued in private until 12:57.*





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