



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE

Wednesday 26 October 2011

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INFRASTRUCTURE AND CAPITAL INVESTMENT COMMITTEE
6th Meeting 2011, Session 4

CONVENER

*Maureen Watt (Aberdeen South and North Kincardine) (SNP)

DEPUTY CONVENER

*Jamie Hepburn (Cumbernauld and Kilsyth) (SNP)

COMMITTEE MEMBERS

*Jackson Carlaw (West Scotland) (Con)

*Malcolm Chisholm (Edinburgh Northern and Leith) (Lab)

*Neil Findlay (Lothian) (Lab)

*Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Dan Barlow (Existing Homes Alliance)

Rosemary Brothie (Shelter Scotland)

Jonathan Fair (Homes for Scotland)

Caroline Johnston (Convention of Scottish Local Authorities)

Michael Levack (Existing Homes Alliance)

Gordon MacRae (Shelter Scotland)

Councillor Harry McGuigan (Convention of Scottish Local Authorities)

Peter Meehan (Convention of Scottish Local Authorities)

Maureen Watson (Scottish Federation of Housing Associations)

CLERK TO THE COMMITTEE

Steve Farrell

LOCATION

Committee Room 5

Scottish Parliament

Infrastructure and Capital Investment Committee

Wednesday 26 October 2011

[The Convener opened the meeting at 10:00]

Decision on Taking Business in Private

The Convener (Maureen Watt): Good morning and welcome to the sixth meeting of the Infrastructure and Capital Investment Committee in the fourth session of the Parliament. Members and the public should turn off mobile phones and BlackBerrys, as they impact on the broadcasting system. All members are present and correct.

The first item of business is to seek the committee's agreement to take agenda items 7 and 8 in private. Do members agree to take those items in private?

Members indicated agreement.

Draft Budget 2012-13 and Spending Review 2011

10:00

The Convener: Agenda item 2 is evidence on the housing aspects of the draft budget and spending review. A few days ago, the committee received level 4 figures on the draft budget, and our witnesses have been provided with that additional information. It is perhaps regrettable that the information did not arrive earlier, but I hope that members and witnesses have had the opportunity to digest some of the figures in the time available. We will certainly give them further consideration.

I welcome our witnesses, who are Councillor Harry McGuigan, the Convention of Scottish Local Authorities spokesman for community wellbeing and safety; Caroline Johnston, policy manager with COSLA; Dr Dan Barlow, head of policy with WWF Scotland, and Michael Levack, chief executive of the Scottish Building Federation, both of whom are here to represent the existing homes alliance; Maureen Watson, policy and strategy director with the Scottish Federation of Housing Associations; Gordon MacRae, head of communications and policy with Shelter Scotland; and Jonathan Fair, chief executive of Homes for Scotland. Our witnesses do not all have to answer every question. If you agree with a previous speaker, just say that, rather than repeat what has been said already, because we have a lot to get through.

What are the witnesses' views on the adequacy of the housing and regeneration budget, in terms of the overall allocation and the balance between capital and resource expenditure?

Gordon MacRae (Shelter Scotland): Overall, Shelter Scotland wants to say that this is the second year running in which the housing budget has taken a disproportionate share of the cuts. It is particularly disappointing that housing has been targeted when other areas of capital investment have had increases year on year. We share the view of many in the housing sector that investment in housing is a particularly beneficial form of public investment, as it delivers a triple bottom line of the revenue stream from social homes, homes for people and a public asset.

The level 4 figures for the infrastructure and capital investment portfolio are welcome, although we have not seen the level 4 figures for local government, which contributes a sizeable proportion of the housing supply funds. From the figures, it is clear that we will struggle even to begin to address housing need in Scotland in the next few years. We welcome the Scottish

Government's decision to listen to the evidence from Shelter Scotland and the Chartered Institute of Housing in Scotland that about £600 million is needed just to sustain the sector as it is. In the past couple of years, the housing supply funds have moved from being in a critical condition in the intensive care ward and into the high-dependency ward, but we are still a long way from recovery. We remain concerned that we are only beginning to touch the margins of the housing need in Scotland.

Councillor Harry McGuigan (Convention of Scottish Local Authorities): Gordon MacRae has said a fair bit of what I wanted to say, but it is important that I echo the analysis that he put to the committee.

We have seen a continuing drop in available resources for social housing and affordable housing. We recognise that there are budget issues and we appreciate that we must work in partnership with the Scottish Government on the budget. However, we must keep reminding the Scottish Government and you as MSPs that the resources available to local authorities and registered social landlords are extremely limited, given the problems that we face. We have a real commitment to dealing with homelessness by 2012. That is not just an aspiration any more, because local authorities have made considerable progress towards that target. However, we are very concerned that it could be one of the casualties of the reduced level of funding.

Alongside that, there is a need to build more houses for people in their communities and in places where there are particular needs. We are anxious that the available resources should be allocated to meet such needs; in other words, the resource allocation should be worked out in a collaborative way with all partners to meet the needs that exist in our communities. It is simply not acceptable—to local authorities, anyway—for local housing strategies not to be worked out in a partnership fashion, which I think all of us sitting around this table would agree should be the case.

Who builds the houses is not too important, but it is very important that they are built in the right places to meet communities' needs. We think that, given the reduction in resources, there are serious risks if we do not ally ourselves and take a collaborative approach rather than the competitive approach that has been taken for the past three or four years—the innovation and investment fund approach.

As far as sustainability is concerned and the ability to provide the houses that our communities need, we must ensure that we work collaboratively on the visions that are developed, based on evidence, in our local housing strategies.

Those are some of the key points that I want to bring to members' attention, and I will answer any questions on them.

Dr Dan Barlow (Existing Homes Alliance): The particular interest of the existing homes alliance is, of course, in the availability of funds to support improving the energy efficiency of existing stock.

Our coalition has three pillars. The first is to ensure that the energy efficiency of our existing homes is improved so that they meet our climate change targets. Homes are responsible for a quarter of our emissions, so it is important to have a step change in that area on our approach to energy efficiency in order to meet the commitments in the Climate Change (Scotland) Act 2009. The second pillar is fuel poverty. There is a Government commitment to eradicate fuel poverty by 2016. More than a third of Scottish households currently live in fuel poverty. The third pillar is the massive opportunity for green jobs in the field of retrofit.

In the budget, there is an increase in spending on energy efficiency and fuel poverty compared with last year. However, it still falls short of the funding that was available in previous years. If we compare the current funding proposals with what we think is necessary to be confident of meeting the climate change targets and the fuel poverty eradication target, we believe that they will fall short of the funding that is necessary to meet those important targets.

Maureen Watson (Scottish Federation of Housing Associations): I will follow the advice that the convener gave us and just say that I agree with what all four of the previous speakers said. However, I stress that there is a strong economic and social case for making investment in housing, particularly social housing, a national priority. Like those who have just spoken, we were extremely disappointed to see housing taking a further cut. There is a strong economic case for investing in housing because of the construction jobs that that creates. We can forward figures to the committee about that.

We also think that there is a strong case for investing in housing as preventative spending. The Finance Committee was keen that we take that sort of approach to the budget this year, to build on the approach taken in previous years. We also think that we are heading towards a housing crisis that, unless investment in housing is made a national priority, we will not be able to resolve.

The Convener: We have had a huge cut in our capital spend from the Westminster Government. You will have done the sums, taking into account all the other pots of money, because you are all employed to do that in this area of housing. Harry

McGuigan said that we should not have a competitive approach but we know that there are lots of people sitting on lots of money and not building any houses with it.

The Chartered Institute of Housing in Scotland says in its written evidence:

"The Scottish Government has reason to be confident about its targets being met even through the much reduced funding over the spending review period. Its recent announcement of the ... Innovation and Investment Fund ... saw approval given for 3,462 homes."

The Scottish National Party Government has previously met its targets, despite the reduced funding. We expect you to say, "There's not enough money"—the reduction is on the headlines—but because of all the pots of money, is it that much of a reduction?

Councillor McGuigan: I hear what you say. We are all facing extremely difficult economic times. However, we are simply not building enough houses. We cannot escape from that priority. We want to tackle homelessness and respond to people's aspirations. We are trying to deal with homelessness but we also have growing waiting lists throughout Scotland and, if we are going to tackle that, we must build homes. That is the issue.

We will of course work constructively and positively with the Government to try to ensure that the resources that we receive are used where they are most necessary and address the needs of communities. At the same time, though, we would not be acting responsibly if we did not point out that we will not be building sufficient homes for people throughout Scotland. I have to keep repeating that to the committee.

Jonathan Fair (Homes for Scotland): The convener hit on an important aspect of the budget, which is an increased emphasis on a range of tenure solutions, even within affordable housing provision. Homes for Scotland is concerned to see housing budgets reduced quite substantially in absolute terms. However, there needs to be an informed debate about the range of subsidy levels required for different types of tenure in the mix within the affordable housing label. It is only by looking objectively at that and understanding the relative needs and requirements of each type of tenure that we will ensure that we have a sustainable affordable housing investment programme in the long term. That is where much of the debate needs to go in future.

Our views are most closely aligned with those of CIH Scotland. The jury is still out on whether the revised subsidy targets are sustainable in the longer term. There has certainly been a successful outcome to the innovation and investment fund in the current year but the question remains whether

that is repeatable over a protracted period. That is where most of the work of the parties that are giving evidence to the committee today needs to be focused.

Gordon MacRae: Members may be aware that Shelter Scotland and the CIH made a joint submission to the Scottish Government before the comprehensive spending review. We share many of the CIH's assumptions.

The convener asked whether the Scottish Government will achieve its target. It is important to unpick that slightly because as far as the Scottish Government is concerned the target has remained 6,000 affordable homes.

At Shelter Scotland, we were delighted that before the election the SNP committed to 6,000 social rented homes. The SNP was the only party to put a figure beside its house building target. While other forms of affordable housing have an important role to play, social rented homes go to the poorest and those in most acute need. Soon after the election, our analysis of the money available to the housing directorate showed that there was enough money for about 1,500 social rented homes.

10:15

Following the submissions before the CSR, we were pleased that the Scottish Government saw fit to recalibrate the money and to set a target of 4,000 social rented homes, although that is still some way short of 6,000 and is considerably short of the minimum that we believe is required to address need, which is about 10,000 social rented homes a year. However, we recognise the budgetary constraints, which is why our submission with the CIH to the spending review set out a programme for what we think is possible in this budgetary climate.

As Jonathan Fair and the CIH are right to say, it remains to be proven how deliverable those units are given the subsidy level and whether we can achieve the 4,000 social rented homes and the other 2,000 from other sources during the year. It is important to recognise that RSLs and council landlords will be required to pay more per unit, which will reduce the model's sustainability in subsequent years, as landlords will have to shoulder more of the debt earlier and will find that their borrowing capacity reduces more quickly than under the more traditional model.

Michael Levack (Existing Homes Alliance): We very much appreciate the Scottish Government's commitment to and understanding of how important capital and infrastructure investment is. We have only to look at the SNP's manifesto to see the importance that is placed on housing.

Unfortunately, the cuts in the available budget—we appreciate that times are hard—mean that I cannot help thinking that we are storing up serious trouble for the future, particularly in company failures and the loss of skills and jobs. I appreciate that we are—technically—out of recession but, when the real recovery comes, significant inflationary pressure will be placed on build costs. We might be back to where we were in 2005, when RSLs got shocks every Friday at 12 o'clock as they opened tender envelopes and saw the cost of delivering housing.

The problem is even more acute in rural areas, whether the Borders, Orkney, the Western Isles, the Highlands or Argyll and Bute, where many small local builders—many of which are second or third-generation businesses that employ local people—are struggling. Sometimes, consideration of housing nationally becomes a bit of a numbers game and we forget the provision of housing in small rural communities and on smaller sites.

The Convener: At the SNP conference, I heard the exact opposite from housing associations in the Highlands—they are using small builders to build on little plots of land, because bigger builders are not interested in that.

Michael Levack: Just last week, I introduced a senior person in a housing association to one of our member companies, because I thought that they might be able to do a bit of business together. That gentleman is normally extremely positive, but he said, "There's no point in talking to me—I have no funds." He had no money and no build programme. I said, "But there'll be next year," and he said, "I don't think we'll be here next year," because he has lost staff. He is from a significant housing association.

Maureen Watson: I thank Michael Levack for a nice lead into the point that I will make. We welcomed the minister's reassurance that two thirds of the annual programme would be for social rented housing and that he had listened to our point that that could not proceed through challenge funding. We have surveyed our members who bid successfully in both tranches of the innovation and investment fund this year and all but one has said that that is completely unsustainable and that they could not repeat that for even one further year. The one member that says that it could bid again could do so only for a small number of units.

The approach is unsustainable. A series of matters makes doing one bid easy, but a lot of abortive work is involved if a bid does not succeed. Issues include getting land at nil value and being able to make a capital contribution from reserves, but reserves can be used only once and are there to pay for maintaining existing stock, bringing it up to the Scottish housing quality

standard and meeting the ever-growing commitments of climate change standards. The situation is unsustainable.

We were invited recently to talk through a better way of doing things, and we look forward to that. That can be achieved only through local authorities working in partnership with housing associations. We look forward to having such joint discussions, but what is required cannot be done at the really challenging grant rate of a £40,000 benchmark per unit.

Caroline Johnston (Convention of Scottish Local Authorities): I want to pick up on the innovation and investment fund. This year, councils received an allocation of £35 million and are able to build more than 1,000 units. In theory, if councils are able to retain £35 million of the innovation and investment fund, they will meet the Government's target of 5,000 council houses over the period of this session of Parliament.

However, echoing Maureen Watson, our question is about the sustainability of the subsidies of £30,000 and £40,000. The expectation is that councils will use prudential borrowing to subsidise the building of those houses and will be reliant on their rental stream to be able to afford the prudential borrowing, but we are concerned about the likely impact of the forthcoming changes to welfare reform on that rental stream. So, we and our member councils, along with the SFHA, will look at the long-term sustainability of the innovation and investment fund.

The Convener: We will move on.

Malcolm Chisholm (Edinburgh Northern and Leith) (Lab): The convener has raised the issue that I wanted to raise, but we can pursue it a bit further, as it is fundamental to our questions about the budget. Let us home in on the money for housing supply. It is agreed that combining the housing line and the housing in local government line gives us £628 million over the spending review period. Shelter makes the general point in its written submission when it points out that that £628 million is projected to build 18,000 affordable homes of which two thirds will be social rented housing. It contrasts that with the previous spending review period, in which £1.7 billion was allocated to build 21,000 affordable homes, of which three quarters were to be social rented housing.

There seems to be an enormous discrepancy. I am not saying that there is no explanation for it, but that is a puzzle for everyone, which was reflected in Shelter's earlier comments. Shelter's earlier projection was that the available money would build only 1,500 social rented homes, whereas we are now told that it will build 4,000. I am genuinely puzzled by the figures. I ask Gordon

MacRae to follow up what he said and tell us how confident he is that the available money—which appears to be £628 million—will genuinely build 30,000 affordable homes, of which two thirds will be social rented?

Gordon MacRae: In our written submission, we have taken the assumptions that the Scottish Government has provided at face value. The landlord bodies will be best placed to say how sustainable and deliverable those figures will be. I do not think that, after the budget has been passed, we should turn away and lose sight of how well Scotland is doing in delivering against that target. However, there are real questions, and on-going scrutiny will be required to ensure that the volume is delivered from reduced funds. Let me put the matter in perspective. We are told that, following a 63 per cent reduction in cash, only 16 per cent fewer affordable homes will be delivered. There is an open question about how realistic that is.

Councillor McGuigan: I am beginning to feel uncomfortable with myself, sitting here. I will come in with almost a mantra. You have to look at the realities that we are facing as far as resources are concerned. The level of resources has dropped considerably. We have made representation to the minister and we are anxious to work constructively with him on the issue, but there must be a shift away from the innovation and investment fund approach. The minister concedes that there are concerns about that and wants to look at it in greater detail, but his predecessor was saying the self-same thing two years ago and we have not moved away from it.

There are aspects of the innovation and investment fund that some people would say suggest that it is neither sustainable nor fair. Some people suggest that the criteria for investment under the innovation part mean that the money is sometimes not being spent on the priority need. In other words, they are saying that such challenge funding is open to unfairness and allegations of bias, which none of us wishes to be associated with.

Caroline Johnston made a point about sustainability, which is a real issue. Local authorities have to meet targets on homelessness, insulation and the Scottish housing quality standard. We must invest in the existing housing stock but we are unable to do so. Some people seem to assume that every local authority can access prudential borrowing, but many local authorities are at their limits and cannot access the additional resources that they need even if they have the desire to do so. The big question must be asked: are the resources going to be available to build the necessary homes for people in our communities?

I have something to say about the consequences of welfare reform for housing benefit. Welfare reform will mean reduced income, which will reverberate around the system. The risk is that less resource will come to social landlords, local authorities and so on, which will make it more difficult for them to provide the homes that we need in Scotland.

Malcolm Chisholm: We can all argue that we need more than 6,000 affordable homes and 4,000 social rented homes. I am really asking a specific question—sorry if I gave a long preamble. Am I to understand that the whole panel is reasonably confident that the amount of resource available will deliver 30,000 affordable homes at 6,000 a year, two-thirds of which will be social rented houses? That is really the only question that I am asking at this stage.

Maureen Watson: No, we are not confident of that at all. Social rented housing must be affordable to people who are on low incomes. Housing is expensive to build, to rent or to buy, so there must be an adequate subsidy if it is to be affordable for people who are on low incomes.

There are two ways of subsidising social rented housing. It can be done either through a one-off capital subsidy—the housing association grant as we have known it up to this year—or through housing benefit. We use both systems at the moment. Whether the balance is right is a moot point—we have our own views on that. Both systems are under threat and we do not think that the two-thirds that is to be social rented housing can be built at a subsidy level of £40,000. Such a subsidy is not adequate if we are to produce genuinely affordable social rented housing.

Malcolm Chisholm: That leads on to Neil Findlay's question.

Neil Findlay (Lothian) (Lab): Government is about making choices; it is clear that the choice is not to prioritise social rented housing. That is becoming more apparent as we go on.

Shelter Scotland's evidence about subsidy and how the system is working is quite telling. It says:

"Early analysis post-election showed that the Scottish Government had only allocated enough funds to build 1550 socially rented homes this year, some way short of the manifesto commitment, with the shortfall to be made up of other forms of 'affordable' housing such as mid-market rent and shared equity. This analysis has not been disputed by officials."

So, have the very low subsidy levels for mid-market rented property and the big push that has been made on mid-market rented property made up the numbers so that we are looking at kid-on social rented or affordable rented houses?

Gordon MacRae: Different types of people need different housing. Mid-market rents are not

affordable or sustainable for people who are in the most acute need, especially those who are dependent on housing benefit, who could get trapped in a poverty problem. If they get back into work but their wage is relatively low, a mid-market rent might not be sustainable, which could create a longer-term problem.

The question is really about the choice that the Scottish Government makes. Should it pursue a volume approach and build as many homes as it can for the least money, or should it prioritise homes for people who are in the greatest need? Shelter Scotland would prioritise the people who are in greatest need, which is why our submissions have focused on how to maximise the number of social rented properties with the moneys that are available. In doing that, we are accepting some of the assumptions about the subsidy, although we have yet to see any evidence on how sustainable that level of subsidy will be. In the best-case scenario, assuming that the Scottish Government's analysis is correct, 4,000 homes will be built, but there will be a shortfall and those homes will not address the needs of the people who are in greatest poverty and who are most at risk of repeat homelessness.

10:30

Jonathan Fair: I take issue with the description of non-social rented homes as a form of phoney affordable housing. A wide range of tenure types are recognised as legitimate parts of the affordable housing mix. They include mid-market rent, shared equity and shared ownership, as well as homes for sale on the open market that are, by their very nature, affordable.

The question is the degree of priority that we place on the needs of individuals. All the people who buy or rent those homes have the same level of need if they do not have a roof over their head. What is different is their capacity to pay for that need and ensure that they can afford the housing that they require.

The budget statement makes it clear that there is a greater reliance on those other forms of affordable housing in order to ensure that the necessary levels are maintained.

Maureen Watson: Homes for mid-market rent and the national housing trust model are two different products. They are affordable for different groups of people, who are not the same groups at which social rented housing is targeted. I will not repeat what I said about the housing being targeted at low-income households. The mid-market rent model is used very successfully by a large number of our members around the country, but it is suitable only in certain situations and in certain locations—such as Edinburgh—where

there is a market for it. If there is a market for it, our members will go ahead and use it at lower subsidy levels, because they can charge a higher rent.

The national housing trust model is entirely different. There is no security of tenure, and it eventually just delivers that housing—which has a higher rent anyway—back into the private rented sector. That is how we sum up the different models. They do not deliver the same things for the same people, but they are meeting needs. You have a choice about where you put your resources.

Neil Findlay: There is a big question around affordable owner-occupation, given that 10 and 15 per cent deposits are currently required for mortgages.

In the past six months I have spoken to a number of housing providers. I will summarise their view: they said that the subsidy regime seems to have served the social housing supply pretty well over many years, and that whatever replaces it must provide quality as well as increased quantity.

The most telling comments that I have heard suggest that the new funding mechanisms for housing are not clear, that they are far from embedded, and that they are not reserved for any coherent programme of affordable or social housing that can be planned and driven forward by all concerned in the next few years. The SFHA, the CIH, Shelter Scotland and various other organisations have expressed that concern. Would your members agree with that?

Councillor McGuigan: Local authorities feel that the priority is to address the social rented sector—there is no question but that it is where the greatest need is, so we should seek to ensure that we can improve the waiting list situation across local authorities. We need to focus on the real needs of the most vulnerable and marginalised people in our communities.

You asked earlier whether we can meet the target for local authority build, for example, which is 1,000 homes a year. I think that we can, in theory, although we cannot if the other pressures that we might face start to come into effect, which brings us back to the question of sustainability.

I am bit worried about some of the models. As Jonathan Fair said, it is important to investigate and analyse every model that suggests that we can improve the supply of affordable housing, mid-market rent properties and so on. We must be careful, however, that we do not become involved in building homes, at an overall cost to the taxpayer, that benefit a sector of society that is well enough off to be able to find homes by other means. We must be careful that we do not use the

revenue for that purpose—that worries many of us in local authorities.

Neil Findlay: May I just ask one final question? A number of people have mentioned the competition element and the unhappiness about it. We are focusing on homelessness; obviously, there is the 2012 target. A number of authorities have said that they are in a good position to hit that target, but all they will achieve is that they will give people the right to an assessment. Surely the focus should be on providing a positive outcome for the person being assessed. What are your organisations' positions on that?

Gordon MacRae: It is important to understand that the 2012 commitment—we always refer to it as a commitment, because it is a legal requirement unlike some targets—will remove priority need. We are confident that the steps that are being taken by the vast majority of local authorities will enable that to take place and that we will remove priority need by the end of 2012. There will be an impact in that more people will have the right to temporary accommodation and longer-term settled accommodation. That will increase demand for temporary accommodation and homelessness services, which have traditionally been the Cinderella services in local government housing departments. We are realistic about that impact, but it is right for Scotland to be a nation that does not accept that some people should not have homes, and it is right for Scotland to take the necessary steps to eradicate homelessness. We need to be very clear that the 2012 commitment will not solve homelessness overnight. It is a step in the right direction and a statement of purpose by Scotland as a nation. We are pleased that the majority of local authorities are making good progress in that regard.

Adam Ingram (Carrick, Cumnock and Doon Valley) (SNP): Landlord organisations have criticised the innovation and investment fund, with perhaps the key criticism being that it is not sustainable. The Scottish Government has been arguing that there is a need for innovative ways of funding housing, so if we are not going to have the innovation and investment fund, what new and innovative ways of funding would you identify and how would the Scottish Government promote them?

Councillor McGuigan: Our prime criticism of the innovation and investment fund is about sustainability. Local authorities—and RSLs, for that matter—need to be able to look to the longer term instead of having to make decisions within a timeframe of one year, but that is what local authorities have been faced with for the past four years. We must be able to look to the future and see a sensible and meetable programme of planning, strategy and resource use over that

longer period. You cannot go on saying on a year-by-year basis, "Well, we'll plan for that."

There are good examples of local authorities and RSL partners throughout Scotland working in very innovative and sensible ways. There is no desire among local authorities to build more and more houses, but there is a desire among local authorities for more and more houses to be available in their communities. It is not so important who builds the houses; what is important is that the houses are where people want to live. We have to plan longer term for that, as opposed to planning year by year. I would be surprised if anyone sitting around the table would use their resources on a year-by-year basis and say, "We'll build so many houses this year and wait and see about next year."

There is potential for innovation in local collaboration and co-operation to identify where houses need to be built and how they can be built, and there are opportunities for other parties to come in and work on that. There was £10 million for the innovation and investment fund, but that does not need to be set up separately from the rest. We should encourage, and have confidence in, the capability of local government and its partners to identify ways and means of creating the housing that is needed in particular areas. Such innovation is happening and more of it will happen if the money is used as a planned resource rather than as a piecemeal resource, as it is at the moment.

Adam Ingram: If, for the sake of argument, you win your case and the Scottish Government accepts that that method of funding will stop, what would you propose be put in its place?

Councillor McGuigan: I cannot sit here and tell you that we have the blueprints, because we do not. The blueprints would be different in your part of the world from those in mine. It depends on the look that we take at the local housing strategies, which are supposed to be about collaborative outputs from the partners in local authority areas. If we work that way, the innovation opportunities will be understood and used. This should not be driven centrally. I believe that we can make better progress if we use the resources in the local sphere over a longer timescale, so that they are programmed in.

Adam Ingram: I guess that the challenge for us all is to try to get more for less. Obviously, for the foreseeable future there will be significant constraint on our budgets and our funding. You are suggesting that there are efficiencies in collaborative working, as opposed to competitive funding. I am just looking for ideas from around the table.

Michael Levack: When we talk about innovation, we use the word in a positive sense. It is as though we are not allowed to criticise something because it is innovative and we all have to think outside the box and all that. Let us not forget the programmes that are already under way. One that springs to mind is the Devanha programme in the north-east of Scotland, which is about collaboration between housing associations with a view to their becoming more and more efficient in what they do. That programme was developing well, but it became a victim of the annualised funding that Harry McGuigan talked about. Where does it sit now? Probably in tatters. So, we will now go off and reinvent something, give it a new name and try to make it better. We have to focus on not dismissing things that are already in place. There is already huge innovation and a desire to do things more efficiently; we do not have to invent a new scheme and give it a new name so that everyone has suddenly to start chasing the ball in a different direction.

10:45

Gordon MacRae: Like-for-like innovations are few and far between. The traditional subsidy model is well established and largely works. It depends on your definition of innovation, but one of the best innovations might be for housing to be higher up the political agenda, compared to other issues. Scotland could innovate by taking the decision that houses rather than roads will be its priority.

The other main innovation that we would like is a bit of stability around housing supply funding. There are ideas that are not fully formed; ideas about an infrastructure or a housing bank, for example, are in the ether. There are ideas that could bring stability if they could be established. However, if we look pragmatically at the comprehensive spending review's timescale, we see that those options are not on the table. If the housing sector has already demonstrated its ability to innovate and to build more homes for less, surely that is a case for putting more money into housing, rather than for cutting it further back.

On the housing sector as a whole—not just social housing—there are suggestions such as the national housing trust and other things that have yet to mature, but which are innovations. It is accepted that the housing sector is particularly good at delivering more for less, so we argue that it should get higher priority, that it should be further up the capital expenditure priority list, and that it should get more in addition to more from less, if that is not too convoluted.

Dan Barlow: I will come in on that from the perspective of existing homes and the budget for improving their energy efficiency. On the long term

and the opportunities for improving energy efficiency to be meshed with the preventative spend agenda, it is clear that relatively modest investments now in improving the energy efficiency of our existing stock will yield massive benefits over the long term. Such investments will result in significant reductions in fuel bills and in massive health benefits. We know about the issues around fuel poverty; a study in England showed that every pound that is spent on insulation saves the national health service 42p. We can see that modest investments now in improving the energy efficiency of our stock will yield massive long-term benefits for the whole of society. Climate-changing emissions will be cut, jobs will be created, and our health will be improved. That is the context in which we should view decisions on major capital and infrastructure investment programmes. We should consider their long-term benefits.

We should note the Government's commitment to moving funding from the revenue budget into the capital budget. It is clear that within capital expenditure the Government can make many choices about what will deliver the best multiple benefits or win-win situations. We suggest that improving the efficiency of existing homes is a clear winner. Health will be improved, people's fuel bills will be cut, the money that is available in the local economy will be increased for people who are less able to spend money on their fuel bills, and our climate-changing emissions will be cut. Our studies suggest that 10,000 jobs would be made available through improving the existing stock. Therefore, there seems to be a win-win situation.

The Convener: That moves us nicely on to Jamie Hepburn's questions.

Jamie Hepburn (Cumbernauld and Kilsyth) (SNP): Thank you, convener. I want to discuss energy efficiency and fuel poverty. I had a number of questions, but Dan Barlow touched on the issues earlier, as we would expect, given that he is from the WWF.

I know that we have a lot of business to get through, so I will ask one specific question. In its budget documents, the Government said that it aims

"to maximise leverage of additional funding from energy companies and other sources"

to support sustainable housing. What scope is there for the Government to be able to achieve that?

Dr Barlow: It is clear that funding is available through current industry commitments—through, for example, the carbon emissions reduction target scheme and the forthcoming energy company obligation. There are also forthcoming United

Kingdom enablers in the green deal that will enable home owners to borrow against their homes and to pay the money back over a long period of time. Therefore, there will be opportunities for Scotland to look at those mechanisms and to consider how to make them work best for Scotland. Many of them will be consulted on over the coming year, and it is imperative that we ensure that the measures will deliver what we need in Scotland and that Scotland gets a fair return and a fair share of the available funding.

I return to innovation. We need to consider what innovative mechanisms we might use. We could couple the Government funding that is available with the significant funding that is available from private companies and the money that householders are prepared to put in by taking out loans against their properties. That sort of approach would resemble a model that has been piloted not only in Newcastle but in Birmingham, in a programme called Birmingham energy savers, which has enabled a substantial retrofit programme in a distinct geographical area for a quite efficient price. Over the next year, we will need to look at how those mechanisms might work in Scotland and how we can use them to maximise benefits. A lot of that is up in the air because we still have to hear many details about how the green deal and the new eco-scheme are going to work in Scotland.

Jamie Hepburn: With respect, all those examples have been funded or set up by the UK Government. Does the Scottish Government have any scope to lever in additional funds?

Dr Barlow: Clearly the Scottish Government will be able to make known its views on the UK proposals. In any case, some of the decisions—including whether energy performance certificates should be reformed to make them work better—will be devolved to Scotland, so there will be scope in deciding how some parts of the legislation will be implemented. We have not seen the consultation and therefore do not know the details, so it is hard for me to give more concrete ideas until I see what is being proposed at UK level, which aspects will be devolved and, therefore, what we will actually be able to do in Scotland. The Scottish Government could certainly encourage and support local authorities to look at the model that is being used in Birmingham and Newcastle and see whether it would work well here in leveraging in money from private companies, individuals and Government sources.

Michael Levack: The existing homes alliance is calling for a national retrofit programme to establish by whatever means—perhaps, again, through innovation—a realistic and continuous funding stream that underpins and supports a

comprehensive programme of improving the current built stock's energy efficiency. A short-term sticking-plaster approach will not work because it will not allow us to meet the 2020 and 2050 carbon reduction targets, will not end fuel poverty in Scotland, will not provide jobs and apprenticeship places and will certainly not encourage building contractors to grasp the opportunity and use their innovation, skills and experience to tackle the need for greater energy efficiency.

Councillor McGuigan: I think, convener, that we are coming back to the same question. In politics we have to make choices and prioritise certain things. I cannot sit here and answer questions about energy efficiency, carbon emissions, home insulation and so on without looking in greater detail at the extent of the remediation that is needed in different types of homes across Scotland, at an in-depth analysis of where resources are coming from and so on.

We will always come back to this bottom line: we as politicians have choices to make and priorities to set. I believe that Adam Ingram asked about priorities—that is the key to this whole question. Are we or are we not prioritising on the basis of the need to provide homes in Scotland for people who do not have the resources to purchase them? The record suggests that we are not. We are cutting the budget. Instead, we have to get back to finding out how we can better prioritise on the basis of providing the homes that we need to the quality we expect.

I might be going on a wee bit here but, as far as efficiencies are concerned, I agree that we should always be looking for them. We should look for efficiencies that would prevent resources for social housing from being split, for example. The RSLs receive about £70 million and local authorities receive about £35 million in that regard. The funding comes in separate bundles for particular areas, such as my home local authority area of North Lanarkshire. Fortunately, we work closely with the RSLs in North Lanarkshire and have a local housing strategy that has been worked out through collaboration and identifying what communities need. That is one of the ways in which we can work towards more efficient spend. However, that does not eliminate the need to prioritise.

Gordon MacRae: There are areas in which we can lever in additional private sector money. However, it is not necessarily about directly getting funds. For example, one of the ways in which the RSL sector has improved the standard of accommodation has been through its work towards the Scottish housing quality standard. The question is why areas such as the private rented sector are not similarly regulated. Sometimes one

of the best ways to get people to take action is to have a better balance between the carrot and the stick. We would certainly welcome a better analysis and understanding of the tolerance in the private rented sector for higher-quality standards and corresponding legislation.

Gordon MacDonald (Edinburgh Pentlands) (SNP): If we were to go down the road of a national retrofit campaign, which we have touched on already, what implication would that have for the Scottish Government's budget? How do we encourage home owners to carry out a lot of the energy-efficiency improvements themselves?

Dr Barlow: There are a number of things that can be done. Programmes already exist that provide advice, encouragement and support to home owners, but the current uptake is not sufficient to deliver the scale of carbon savings that we need to meet our climate targets. It is also important that there is Government support to address social issues such as fuel poverty. Likewise, we have a statutory target to reduce our climate emissions and it is only right that the Government puts money into supporting that. The current Government proposals allocate £65 million a year for energy efficiency and fuel poverty, which is going up to £66 million. Of course, over time, that in effect becomes a real-terms decline, and it is some way short of the £100 million that we think would ensure that we could deliver on climate targets and fuel poverty commitments.

The green deal mechanism, which I referred to before, will enable home owners to borrow money against their property and invest it in improving the energy efficiency of the property. The idea is that there will be what is called the golden rule—that is, that home owners will pay an amount on the loan that will be equivalent to what they save on their energy bills, which will mean that they will be no worse off at the end of the year. However, for that to work, interest rates will have to be competitive enough to attract individuals to take up the loan and there will have to be a programme of support, awareness raising and advice so that people understand and are keen to participate in the scheme.

We also think that there should be minimum standards for all properties in Scotland so that, over a certain timescale, there is a distinct incentive and driver to invest in improving the efficiency of all Scotland's properties using a combination of Government and private funding. The current budget and Government funding can never deliver all the funding that is necessary to upgrade our stock. We need to consider adding private funding to that. We would also argue strongly that the current Government funding proposals are not sufficient for the Government to do its share to meet the imperative to eradicate

fuel poverty and cut climate emissions and ensure that we are on track to meet those targets.

Michael Levack: That is one of the reasons why the existing homes alliance came together. It is a diverse and interesting mix of organisations. One of the things that we have very much focused on is ensuring that information for householders is coherent and easily understood and that there is no duplication of effort as we strive to achieve the carbon reduction targets.

11:00

Dr Barlow: We have learned a lot in the past few years by looking at different schemes. We have a good knowledge of which schemes are most effective in delivering carbon reductions and securing high levels of take-up of energy efficiency measures. We support the universal home insulation scheme, which is one of the schemes that deliver well, and we suggest that increasing the budget for that scheme is an efficient and effective way in which to improve the efficiency of Scotland's building stock and deliver substantial carbon reductions.

Maureen Watson: We, too, are members of the existing homes alliance. We bring knowledge to the table because we had the benefit—through a Scottish Government grant last year—of having a member of staff co-ordinating the Scottish Government's housing energy efficiency learning network. Through that year and a bit of experience, my colleague amassed a lot of knowledge about what works and what does not. We can therefore try to stop a lot of abortive pilots being started and instead mainstream some of the things that we already know will work from practice in the sector. That is transportable to other sectors.

The Convener: As it is a wide area, we might write and ask you to tell us in more detail where you believe there is scope for more preventative spend in the housing budget. You could perhaps also go into more detail on energy efficiency measures.

Neil Findlay: Two sides of the fuel poverty issue are insulation and generation. I recently looked at installing photovoltaic panels on my home and I quickly realised how people can be affected by the procedure. People need £8,000 to £10,000 up front to purchase the kit to put on the roof, which then pays them back at 12 per cent or something over the long term. Instead of putting huge amounts of Government subsidy into commercial renewables, should we not put some of the money into community renewables so that councils, RSLs and other property owners can install the kit on the roof and provide cheap electricity to the tenants? The excess profits that

are generated could go back to the community, the RSL or the council to enable them to continue their energy efficiency work. That approach would circulate the money. At the moment, it all seems to go to the big players in the industry, who are scooping up huge profits for their shareholders. We could be doing more socially beneficial work with the money. I do not know whether any of the witnesses are involved in that game.

Dr Barlow: From our perspective, all forms of renewables move us on, but the cheapest unit of energy is the one that we do not use. At present, we are failing to take many cost-effective measures that would cut the amount of energy that we need to produce in the first place.

There has been progress in the past couple of years. Local authorities can now use their buildings to generate energy and recover a revenue stream from that. Previously, that was precluded, so it is to be welcomed. In the coming years, a lot will rest on the viability of small-scale schemes, depending on the feed-in tariff structure and regime. At the UK level, there is clearly some uncertainty about what those levels will be. If they decline substantially at a time when the technology is starting to become more widespread and common—people are becoming familiar with it and the cost of installation is coming down—there is a risk that it will fall back at an early stage, before it becomes mature and is widely taken up. The uncertainty on those points should be resolved.

Jackson Carlaw (West Scotland) (Con): I am conscious of the time, so I will comment briefly on the challenges for older people, transitions and adaptations. The Government clearly believes that an issue is emerging and it is talking of a new national housing strategy. Adaptations appear to be down 25 per cent in the forthcoming year and the SFHA says that that is on top of a 21 per cent reduction in the previous year. I know from constituency examples that it is a considerable issue. How can the process of funding adaptations be made more effective? Should the Scottish Government be addressing other kinds of housing transitions through the budget?

Maureen Watson: I will focus on adaptations, which have been a big issue for us. We are represented on the Scottish Government's adaptations sub-group, which is looking across the board and across tenures at new methods of funding adaptations. I will not go over the history, because it is in our written submission, but an attempt was made to change the funding arrangements for adaptations in our sector and we opposed it vigorously. We welcome the fact that the Government chose to step back on that.

We are looking for something that is tenure blind and genuinely considers the individual's needs.

We note and are disappointed by the 25 per cent cut in the level 4 figures that were published yesterday. We recommend that the committee read a report that Bield Housing Association, Hanover (Scotland) Housing Association and Trust Housing Association have just published on the social return on investment in very sheltered housing and adaptations. It includes the preventative spend information. I will give one figure from it: last year, a £1.4 million spend by those three organisations on adaptations saved the Scottish Government health and social care budgets approximately £5.3 million.

I cannot emphasise to the committee enough the benefit that preventative spending—adequate investment in housing and housing support services—has for other elements of the budget. We will provide much more detail on that in our written submission.

Jamie Hepburn: We have touched on the UK Welfare Reform Bill and will consider that in more detail in the next agenda item. As Maureen Watson and Harry McGuigan are staying for that item and can discuss it in greater detail with us in a minute, they may not want to answer my question right now. What, if any, concerns do the witnesses have about the proposed changes in the bill and how they might impact on the funding that is available for housing and homelessness services?

Gordon MacRae: My colleague Rosemary Brothie will participate in the next item and will give an overview of how Shelter Scotland has been working with Shelter in the UK to make representations on the Welfare Reform Bill. It is important to appreciate the impact that the bill will have on housing supply. Housing benefit is a significant revenue stream on which landlords rely to ensure that their books balance and the reforms will eat into that in no small part.

There are specific Scottish dimensions to the reforms. We are particularly concerned about the change to the single-room rate, which means that anyone under the age of 35 will receive housing benefit only to the level of that rate. That poses significant challenges for the 2012 homelessness commitment. There is a lack of shared accommodation in Scotland, so how do we find suitable settled accommodation for people under the age of 35?

We are still in the foothills of understanding what impact the bill will have, but that is the focus of our existing concerns.

Jonathan Fair: The bill may have unintended consequences for some of the wider housing supply innovations that we have talked about, such as the national housing trust, under which rents are benchmarked to local housing allowance

rates. Changes to the welfare system may mean that some proposals that we are trying to push are no longer viable.

The other reform that is concerning is the proposed shift from payment to the landlord to payment to the tenant, because that removes certainty of income stream for the investor.

Those aspects of the reforms are deeply unhelpful for trying to drive greater private sector involvement in the delivery of affordable housing.

Councillor McGuigan: Convener—

The Convener: Are you not on the panel for the next item, Harry?

Councillor McGuigan: My comment is not about welfare reform; it is about adaptations and RSLs. The view in COSLA is that there should be equalisation between local authorities and RSLs on adaptations. We have to fund adaptations under our housing revenue account through our business plans and we feel that that is how RSLs should fund them. They currently receive the resources in a block from the Scottish Government. We feel that that money should be used in the collective resource that is available for the building of affordable social housing and the needs should be met in their business plans.

The Convener: I thank the witnesses for attending and for their contributions, which have been helpful.

11:09

Meeting suspended.

11:15

On resuming—

Welfare Reform Bill

The Convener: Our next item is an evidence session on the Welfare Reform Bill as it relates to housing in Scotland. As certain provisions in the bill relate to both devolved and reserved matters, the Scottish Parliament is expected to be asked to consider a legislative consent motion, seeking its agreement that the provisions be extended to Scotland. The Parliamentary Bureau has agreed to refer the LCM, when lodged, to the Health and Sport Committee as the lead committee, with the Infrastructure and Capital Investment Committee and the Local Government and Regeneration Committee designated as secondary committees. The LCM has not yet been lodged but taking evidence on the relevant proposals in the bill will mean that, when it is, the committee will be in a position to report quickly to the Health and Sport Committee. Members will also be aware of a late submission from the Cabinet Secretary for Infrastructure and Capital Investment, setting out the Government's view on the bill. That submission has also been circulated to our witnesses.

I welcome to the meeting Peter Meehan, an independent expert providing advice on welfare reform to the Convention of Scottish Local Authorities; Councillor Harry McGuigan, COSLA's spokesperson for community wellbeing and safety; Rosemary Brothie, senior policy officer with Shelter Scotland; and Maureen Watson, policy and strategy director with the Scottish Federation of Housing Associations.

I will start with a very general question. Do you agree that the welfare benefits system and housing benefit in particular need to be reformed?

Rosemary Brothie (Shelter Scotland): First of all, I thank the committee for the invitation to give evidence on this very important issue. As a crucial element of the housing safety net, housing benefit is a major priority for Shelter not only in its campaigning and policy work but in its front-line services.

We support the principles of the new universal credit, for which the Welfare Reform Bill is a vehicle. The aim of the credit is to tackle work disincentives; to overcome certain employment barriers that people on housing benefit and other benefits encounter; and to simplify the current very complex system. As clients continually raise such issues with us, we believe in principle that the welfare benefits system needs to be reformed and welcome the broad intention to simplify it and tackle work disincentives.

That said, the bill's proposals represent a significant attack on the levels of available welfare benefits. In this instance, the devil will be in the detail. There are many unanswered questions about the measures that are being brought in; indeed, universal credit is being introduced on the back of a number of significant cuts to the housing safety net that we think will be disastrous for people in Scotland and across the UK.

Maureen Watson: To be concise, I agree with everything that Rosemary Brothie has just said. We commend to the committee the Scottish campaign on welfare reform's "A Manifesto for Change", which was published before last year's UK general election. We support and have signed up to its statement of the fundamental principles that should underpin a fair and decent welfare reform system that treats the individual with respect and dignity. We feel that some of the bill's proposals do not do the same.

Councillor McGuigan: Of course we all want a better administered, more efficient and more relevant welfare system. The problem, however, is the pace at which the UK Government is moving forward with this. The homework has not been done and the detail has not been examined. Indeed, in meetings that I have had with UK ministers, I have found it very difficult to get answers to questions about the pace at which all this is moving and the damage that the bill might cause. As a result, we must be extremely guarded in any welcome that we give to these reforms. We welcome anything that makes the system more efficient but we must also ensure that we protect those who will be very vulnerable to the excesses in some of these welfare reforms.

Peter Meehan (Convention of Scottish Local Authorities): One of the biggest deterrents to people taking up paid employment is the rate of withdrawal: the so-called taper. We were quite supportive of a modification to the welfare benefits system that reduced the rate of withdrawal and made it more worth while for people to take up paid employment. The initial model proposed by the centre for social justice had a withdrawal rate of 55p in the pound, but it appears that the heavy hand of the Treasury has been brought to bear and the rate of withdrawal will now be 65p, which is not much better than the situation at the moment. That is very disappointing.

Malcolm Chisholm: Most of the questions will probably be on the specific issues because, as has been said, the devil is in the detail. It would be useful at the beginning, however, to get an overall view of the potential impact on particular groups: that is, tenants, landlords and housing providers. The other overall impact that particularly interests me is the effect that the changes might have on

the achievement of the 2012 housing objective in Scotland.

Councillor McGuigan: We must seriously consider the consequences for the 2012 target. There is a great worry that one aspect of welfare reform will be the direct payment of housing benefit to the claimant and not the landlord. I am sure that we would all associate ourselves with the idea that it is important to give people as much responsibility for their own affairs as possible, but some people are extremely vulnerable and are not necessarily capable of managing their financial affairs in the way that we would want them to. The consequences of such a change could be rent arrears, leading to increased eviction rates and more services being required from local authorities at a time when demographic changes and the economic cuts that are being imposed mean that we do not have the resources to deal with that situation. The big worry, I think, is that we could see situations in which local authorities lose a major income stream, which could have severe consequences for the services that we are trying to provide.

Peter Meehan: I echo that. We will not just lose income, but gain the overheads associated with managing arrears cases and collecting money from people who are not in a position to pay it or who have spent it on other commitments. We will not only lose revenue, but have to spend on services money that, at present, we do not have to spend. That overhead might well impact on the levels of rent that need to be set.

Maureen Watson: Currently, 96 per cent of housing association and co-op tenants choose—the word "choose" is important—to have the rent paid direct to their landlord. That is no different from any of us around the room choosing a direct debit system to pay our mortgages or rent. There is one difference, however. If you had a direct debit and were on a low income that would mean that there would be a chance that the money might not be in the bank. If the money was not in the bank, not only would the debt not be paid but you would incur a charge. If the landlord chose to try to claim the money twice, which they are entitled to do, you would incur another charge. By the end of the month, you would still not have paid the rent, you would have incurred an astronomical bank charge and you would have next month's rent to find. That can only lead to spiralling rent arrears, spiralling operating costs for landlords and increased homelessness at a time when, as we have just discussed, the Scottish Government faces challenges in providing new supply. It is frightening.

Rosemary Brothie: When we consider what impact the welfare reform changes and the cuts, in particular, will have on homelessness and the

2012 commitment, we look both at the capacity of local authorities to respond to homelessness and their options for doing so, and at the propensity of people to find themselves in housing difficulty. Housing benefit is a significant part of the housing safety net. Let us not forget that housing benefit is not only for people who are unable to work in the long term or people on low incomes; it is there to top up people's incomes or provide income for people in such circumstances. It is also for people who find themselves in difficulties, such as those who suddenly lose their job and need a temporary safety net. The various cuts and eligibility changes that will be brought in by the Welfare Reform Bill and absorbed into the universal credit, and the issues to do with how the payments will be made that my colleagues talked about, are all coming together to make things much more difficult for people who need to rely on housing benefit and more difficult for local authorities, which are there to provide for and help people in such situations.

Malcolm Chisholm: That is a helpful reply. I am trying to aggregate the issues, which is difficult; we will go on to discuss the specific issues. Another way of putting the question might be to ask how many more people will become homeless because of the changes. I know that you cannot say precisely what the figure will be. The comment by Shelter Scotland at the end of the previous evidence session was interesting. How many people will not be able to be placed in settled accommodation because of the changes? Obviously, single-room rent was the specific example that was given. Is it possible to give ball-park figures for the increase in those who will be homeless and for the number of people who will simply become more difficult to place, as there will be nowhere to put them under the new housing benefit regime?

Rosemary Brothie: It is difficult to provide estimates of those figures with any degree of certainty. The Scottish Government has conducted quite a considerable impact analysis in which the existing data were looked at, and it came up with a range of figures for some specifics, but it is almost impossible to aggregate everything and consider the cumulative impacts. Off the top of my head, I can give a figure that relates to the impact of the first two changes. It has been predicted that there will be 3,000 additional homeless applications as a result of the cap on the rates and the removal of the £15 excess for a local housing allowance.

It is very difficult to say what will happen partly because of the complexity that is involved, but also because it will rely to a great extent on individuals' responses to their cuts. Some people might be able to make up the shortfall through other forms of income, which might mean that there will be hardships elsewhere. The problem might not be immediate: people might be able to

make up the shortfall for a certain period of time, but then find that they are less able to fall into rent arrears over a period of time.

Obviously, we expect people to want to seek lower-cost accommodation. I know that one reason for some of the reforms is that the United Kingdom Government is expecting private landlords in particular to reduce rents, but we simply do not know what the response of private landlords will be to reduced levels of local housing allowance or whether in most situations landlords will have the flexibility to reduce rents because of their mortgage obligations. It is therefore difficult to put a figure on the number of additional homelessness applications that we can expect as a result of the cuts, for example, but needless to say, the situation is very worrying.

Peter Meehan: One of our biggest concerns is about the changes relating to underoccupancy. The Government says that if somebody has a spare bedroom—

The Convener: We will ask about that shortly. Although we are discussing generalities at the moment, we will discuss details later.

Gordon MacDonald: Given the wide-ranging nature of the Welfare Reform Bill and that the devil is in the detail—that has already been stated—what are your views on the UK Government's level of consultation and engagement on the bill's provisions with the Scottish Government and Scottish stakeholders?

Maureen Watson: That has been a huge concern of ours; indeed, it is probably an overriding concern. Earlier this year, we wrote to the Westminster Parliament's Scottish Affairs Committee to express our concern about the difficulty that people up here face in engaging in the debate. As an example, we said that we were keen to give oral evidence at the committee stage at Westminster, but we were not given a slot. We were told that that was because not enough time had been allowed to give us a slot. No other Scottish organisation—or Welsh or Northern Irish organisation, for that matter—was invited to give evidence to that committee. All the organisations were England based. We got around the matter by asking our sister federation to draw attention to our evidence. The chief executive of the National Housing Federation, David Orr, did that, and we thanked him for it, but we should not have to rely on such methods to get engagement on a bill that is important throughout the country.

The main point in our letter to the chair of the Scottish Affairs Committee was that the interests of the devolved Administrations are being marginalised in the process. We are not getting a proper chance to scrutinise the bill or consult on it. Several of us around the table have had visits

from the Department for Work and Pensions, but the meetings were rushed and it is fair to say that they did not know what we were talking about half the time and did not have answers for any of our questions; in fact, for many of us they just provided more questions than answers. We do not regard that as consultation.

11:30

Rosemary Brothie: I agree with everything that Maureen Watson said about the consultation in Scotland. I am sure that the committee is aware that, as well as operating in Scotland, Shelter is a UK organisation, so I have had the opportunity to talk to colleagues in London about my specific concerns about the bill's possible Scottish impacts and they have likewise been fed in to the process to an extent. Again, from talking to colleagues, I know that Shelter as a whole is experiencing continued frustration with the consultation and the lack of detail in the bill. We have asked for clarification, particularly on our concerns about practical matters such as what would count as a bedroom in the definition of underoccupation. Officials have told us that they are still working through the policy details and that the regulations on which most of the bill's detail will be based are still being worked out. We have now seen a draft of them, albeit very late in the bill's process.

It is difficult for us to examine the bill's possible impacts, and we cannot make proper representations about amendments to the bill if we do not understand what its impacts will be. There is a big problem with scrutiny of the bill because of the pace at which it is having to be pushed through and the scale and complexity of the proposed changes.

The Convener: Harry McGuigan has already said that he has had engagement on the bill, but does he want to add anything?

Councillor McGuigan: I did not say that I had had engagement. We have attempted to have engagement, convener, but it has not been easy to realise the engagement in the way that we would want. Our first engagement was early on with one of the ministers, Chris Grayling. I was with Alex Neil and Keith Brown for that meeting. We talked mainly about housing matters, but I raised my concern about welfare reform and asked for details about what the impact of that would be in Scotland and so on. I was greeted with the response that if I continued to try to press questions on that matter, the meeting would be called off. That was not very instructive or helpful.

As far as the DWP is concerned, we have tried very hard to get meetings with them. They finally agreed to a meeting, which will be in two or three

weeks' time, at which I will talk to them about some of the issues.

We have established a working group in the Convention of Scottish Local Authorities that is examining aspects that Malcolm Chisholm asked about such as the impact of the proposed reforms on local authorities and the consequences for homelessness targets, the number of people who will be affected and so on. It is not easy to get that information, but we are working on it and we hope that we will be able to bring back reports on it quickly.

It is difficult terrain to cross. It is said that the devil is in the detail, but I wonder whether anyone knows what the detail is. They are certainly not revealing much to anyone about it.

The Convener: Does Adam Ingram have a question about universal credit?

Adam Ingram: Yes. We have covered a number of issues with regard to the introduction of universal credit and it being paid directly to tenants, particularly the likely increase in rent arrears and possibly in evictions and homelessness, and the operating costs for landlords. Perhaps the witnesses could tease out the possible impact on investment in social housing, which was obviously a major concern for the witnesses in the previous evidence session. How do we mitigate the impact of the bill if it is introduced? Presumably, you are trying hard to prevent it from being introduced in the first place. What is the likelihood of that and, if the bill is introduced, how can we mitigate its impact?

Maureen Watson: We are pursuing a twin-track approach to the bill. On one track we are trying to prevent things that would have the worst impacts from appearing in the bill in the first place, but we are having little success in that.

On the other track we are making our members and their tenants as aware as possible of what is coming round the corner. We are advising our members to look ahead in their business plans and take mitigating action, and to look at what the impacts will be on their tenants. We have produced an online toolkit as part of the impact assessment that we commissioned; we will share it with the committee. The toolkit will allow individual members of staff in housing associations to sit down with tenants and try to work out who is most at risk. They can build up for their organisation a picture of what the biggest threats to their operating costs and income streams will be and take decisions from there about how they will deal with the situation.

The biggest threat, which you referred to at the beginning of your question, is to our ability to borrow to fund new supply. I think that Santander was the first bank to come out and say that the

proposal threatens one of the key pillars on which it couches its lending to our sector. Since then, the Council of Mortgage Lenders has been vocal. It has been one of our partners, along with Shelter, in lobbying the House of Lords, where the bill currently sits.

It is extremely concerning that, at the same time as the Scottish Government is trying to get us to provide more for less, there is the possibility that when we borrow we may not be able to get access to the amount of funds or at the competitive rates that we have had access to previously. That can only impact on rents, which are at the centre of this. We are extremely worried about all this.

The Convener: If Neil Findlay could ask his question, that might move things along a bit.

Neil Findlay: We have moved on from the payment direct to tenants, but I want to go back to it. You might want to take a point from Harry McGuigan first.

The Convener: No. On you go.

Neil Findlay: I worked as a front-line housing officer for 10 years and saw some of this in action—usually when a council made a mistake and sent the cheque to the tenant instead of to the landlord. I cannot emphasise enough that, if the tenant does not want it to happen, the proposal is grossly irresponsible. It is dangerous and it is inevitable that people will lose their homes, and a lot more than that. It is really dangerous and I cannot get to grips with the logic of it. What is the Government's logic? Is it the great belief in personal responsibility or some contrived nonsense like that?

Peter Meehan: Iain Duncan Smith has said on a number of occasions that he would like a monthly payment of welfare benefit to individuals, so that they are in the same situation as they would be in if they got a wage. When you get a wage, the employer does not hive off some money to send to your landlord and some to send to a fuel company, or whatever. Iain Duncan Smith feels that a monthly payment would remove a barrier to work, because he believes that people become institutionalised by having all their decisions made for them. When people are given the opportunity to take up employment, the need to budget for themselves is a deterrent. That is what we are told. That is the logic behind the proposal.

Neil Findlay: To come back on that—

Peter Meehan: I am not trying to defend that position, by the way.

Neil Findlay: No. I make the comment that, for anyone who has been unemployed and had to claim housing benefit—as I have in the past—the one thing that you want at that time in your life is

certainty that you will have a roof over your head. That certainty will be taken away, which is grossly irresponsible.

Councillor McGuigan: It is difficult to anticipate what we can do to mitigate problems until we see the detail of the proposals. Local authorities throughout Scotland are now, alongside partner organisations, looking at ways and means of identifying measures that need to be taken as early as possible. It is important that we get the message out to people about the vulnerable position that they could place themselves in if the Government goes down the route of making direct payments to the claimant as opposed to the landlord. A toolkit needs to be designed to maximise the support and advice that we can give. There also needs to be an early trigger in situations in which people are accumulating arrears, so that direct payment to the landlord would resume. We will certainly make representations on that. In other words, if there are signs that rent arrears are kicking in and the situation goes on for four or five weeks, the system would revert to direct payment to the landlord.

That will not be easy, and there are costs associated with all the mitigation measures that we will introduce. As I said earlier, politicians have a responsibility to prioritise, and this will hit the weakest and most vulnerable in our communities. We must prioritise defending their situation, which will sometimes mean telling them that they are too vulnerable and not ready to take on the responsibility for managing their financial affairs in the best way for them.

The other issue is the consequences that that will have for the resources that local authorities will need in order to provide that support and to enable us to build the homes to meet the targets for housing standards, homelessness and so on. It is a complex area but we must face up to it. As somebody said, we are riding two horses at once. We are trying to have the bill modified so that the themes that it contains are less dangerous than they currently appear; at the same time, we must prepare for the consequences of the worst aspects of the bill when it comes into force.

Neil Findlay: Can I make two further points, convener?

The Convener: Can you ask your questions as well, please?

Neil Findlay: They are part of my question, although they are on the detail and are slightly different.

The Convener: We are running short of time.

Neil Findlay: First, is it assumed that people will have bank accounts? Many people do not, and

free banking is becoming less available. Secondly, reverting to direct payment to the landlord is fine, but previously—changes to benefits move on quickly—someone could apply for a direct payment through a benefit cheque of a small amount to chip away at rent arrears. Will that option still be available? If not, all that we will do is go full circle.

Peter Meehan: I will chip in with an answer on the first point. When the local housing allowance was introduced three or four years ago, it changed the arrangement for private sector tenants so that the payment was made to the individual. It was a major undertaking for local authorities to enable people to open bank accounts. Quite a lot of banks did not want that type of clientele, as they did not see any investment potential in somebody getting a payment in one day and lifting it all out the next day.

We see a role for credit unions as opposed to banks. They work in the community and are not in it for profit. We need the time to build up a working relationship with the credit unions to address the difficulties that you have spoken about.

We have talked about the devil being in the detail. The detailed question that you have asked—whether the DWP will be willing to make deductions from the universal credit to contribute to rent arrears—addresses the very detail that we are crying out for but just not getting. We are getting no answers at all.

Rosemary Brotchie: Peter Meehan has talked about the justification of personal responsibility, but there is a significant practical difficulty with disentangling the housing benefit element of universal credit from the overall payment. That difficulty will underlie some of the problems that we have in relation to direct payments.

In a number of conversations, the DWP and ministers have said that they will retain the facility for direct payments in some circumstances. However, when pushed to answer how that will work, they have not been able to tell us. We need the facility to pay an element of universal credit directly to any landlord—or any third party, for that matter. That would require an extremely sophisticated calculation to work out, for example, a hierarchy of who would get what first from the universal credit. Third-party banking details would also need to be held. None of those things is being built into the system as it stands.

We also have an issue with the overall benefit cap—I do not know whether that was going to be the subject of a future question. The overall benefit cap will hit housing benefit, which is probably the single most variable element of universal credit. Depending on where people live and what their rent is, which may not be within their control, they

might be subject to an overall benefit cap that affects their ability to pay rent without borrowing from the other pots of money that they receive as part of the universal credit.

It is not simply a question of the justification of personal responsibility and wanting to carry that through; there is a significant practical issue. As we understand it, housing benefit will cease to exist when the universal credit comes in. It will be one element of a single payment.

11:45

The Convener: Neil, do you want to come back in?

Neil Findlay: No. I just want to burst into tears.

The Convener: Okay. Jamie, do you want to ask your question?

Jamie Hepburn: Yes. I have similar detailed questions. I did have a question on the cap on total benefits, but I think that Rosemary Brotchie has usefully answered it.

You talked about the effect of paying the universal credit directly to tenants. Changes are proposed to the setting of local housing allowance rates. What impact would they have on tenants and landlords? Do you want to see the proposals changed? If they go ahead, how do we mitigate them?

Peter Meehan: There are many cuts to local housing allowance. We have the reduction from setting rates at the midway point, or the median, to setting them at the 30th percentile of rents, and we have the move away from uprating each year using the retail prices index to using the consumer prices index. Although there is a bit of parity between the two rates at the moment, over the longer term that change will reduce the value of the local housing allowance.

The shared accommodation rate is coming in, under which people under the age of 35 will have to look to share accommodation rather than stay in a place with one bedroom. Some of those people are coming out of a broken marriage or relationship and would like access to their children. Would the mother allow a child to go into accommodation that is shared by somebody they have never met in their life before? Some of the changes will cause total devastation for the most vulnerable in society.

You asked how we can mitigate the effects. The answer from Lord Freud is a discretionary housing payment budget, which, if paid out, would probably cover less than 5 per cent of the total cuts. We do not know how we are going to mitigate the changes. All we can do is, as Harry McGuigan said, gear up to provide the best advice and try

quickly to pick up and counsel people who have fallen into arrears. However, counselling them is one thing; giving them money to help remove the burden is quite another, and we just do not have the money.

Jamie Hepburn: That is a pretty stark warning. Does anyone else want to comment?

Maureen Watson: As you know, the local housing allowance relates to the private rented sector. Our biggest fear is that the indirect impact of all the changes that are being formulated and those which are happening already is that people will be forced out of that sector and on to our waiting lists. We have already discussed this morning how challenging that might be.

Rosemary Brochie: Shelter and the CIH have done research on the situation particularly in England and Wales, where the rent information is available. It shows that, over time, uprating benefits according to the CPI rather than retaining the link with actual housing costs will exacerbate significantly the shortfalls between the LHA levels and rent levels.

The impact will be that, in a large number of areas, people will be priced out: they will not be able to afford the accommodation. That will mean that low-income households are not able to live within easy reach of employment opportunities, because rents tend to increase in areas where there is a lot of employment. It also means that they will not have access to the support networks that they might need and they might be forced to make frequent moves to find scarce accommodation within the rent levels that they can afford. There is a combination of factors involved.

It is difficult to put a figure on the impact on homelessness because it will be cumulative. Although people will face cuts from day one of the cuts coming in, the effect will increase over time. One of our key concerns is that, although we know that the DWP is planning to take the link away from rents, we do not know how it will do it because the detail is not there yet. The indication is that the LHA will be linked to the CPI, but as the bill stands there is the potential for cuts to be made in other ways.

Such detail is lacking in other areas. We mentioned underoccupation cuts. We know that the intention is to link the universal credit to property size, but we do not know how that will be done or what the cuts will be. For example, it may depend on whether someone has one bedroom or two bedrooms more than what is deemed to be the right size of property for them. That detail is missing at the moment.

Jamie Hepburn: Notwithstanding the reasonable point that you make about not having much detail at this stage, given that there is a

correlation between the local housing allowance and rental costs, which areas of Scotland will be affected most starkly?

Rosemary Brochie: Areas where rents are traditionally high. At the moment, the local housing allowance is set by broad rental market areas. There are certain areas where people on housing benefit or LHA cannot afford accommodation.

Jamie Hepburn: Are we talking about urban centres such as Glasgow and Edinburgh?

Rosemary Brochie: Yes—urban centres or centres where employment opportunities are high. However, we must not forget that in remote or rural areas, where less accommodation is available and where shared accommodation and the underoccupation cuts are factors, we need to find alternatives for people who are in social rented housing to move into. Scottish Government analysis has shown that, in some remote or rural areas where accommodation is scarce, people will find themselves getting into rent arrears with no options as they have no opportunity to find somewhere else to live.

Adam Ingram: All the bill's reforms seem to be focused on people of working age, but I have concerns about their impact on children and young people.

I have no idea what the impact will be on pensioners—perhaps you could give us an idea of that. Proposals such as the benefits cap on large households will obviously have an impact on the children in those households. The notion of the uprating of deductions for non-dependants could lead to young people being asked to leave their family home. Have you made an assessment of the impact on children and young people and/or pensioners?

Councillor McGuigan: Local authorities do not have any detail on the impact that the proposals could have.

I want to stress the importance of continued, collective and determined lobbying on the worst aspects of the bill. It was the intention to impose the housing benefit cap on elderly people—people who are above working age—but that proposal has been shelved. I would not call it a victory, but it shows that, if we make sensible and effective early representation and we broaden political alliances, we can make a difference.

Adam Ingram is right as far as the detail is concerned. Someone told me that, if a student whose family is on housing benefit goes to university and gets their own flat, the family could have their benefit cut because they have an unoccupied room. That is a nonsense. Bringing in the bill could be extremely damaging and risky,

and it could cause destabilisation in more and more families.

Peter Meehan: The Child Poverty Action Group is concerned that, if claimants have a shortfall in the rent that is not covered by the housing element of universal credit, they may well have to meet it using money that they would otherwise spend on their children, and that the bill will therefore have an effect on child poverty. It may well also affect families' ability to heat their house, so it will add to fuel poverty. The knock-on effect of someone suddenly having to meet such a shortfall goes wider than just paying the rent. All the expenditure incurred by that household could take a hit.

Adam Ingram: For me the bill works in diametric opposition to Scottish Government policy on income maximisation for families and the like. Maureen Watson, do you agree?

Maureen Watson: I was nodding vigorously because that is, indeed, our major concern. The reforms related to housing cost cut across the Scottish Government's housing and social policies, and no time has been taken to consider the specific impacts of that.

In our comprehensive impact assessment, which, as I said earlier, we will submit to the committee, we have examined the deductions for non-dependants that have already been introduced this year. A household with a non-dependant on the minimum wage for 40 hours a week will lose £48.45 a week in housing benefit, which is a £10.25 a week increase in deductions just this year. Those young people—and we must remember that they can still be young people—might be forced to move out of their accommodation, which, ironically, might lead to their families' being subject to an underoccupation penalty. It simply beggars belief. As I have said, we will provide the committee with the full impact assessment, which we think you will find useful.

The Convener: Do you wish to ask a question, Jackson?

Jackson Carlaw: On reflection and bearing in mind the responses that we have received to earlier questions and throughout this session, I think that I have the answers to the two questions that I was going to ask. I do not think that the committee would benefit from the repetition.

The Convener: Thank you very much.

What is your view on the timetable for implementing the proposals? The housing benefit changes are to be introduced in 2013, while the universal credit is to be launched the same year and rolled out by 2017.

Councillor McGuigan: We are very concerned about the prospect of a dual benefits system. It is going to cause absolute chaos with regard to the

inquiries that will have to be carried out and the advice that will be required. That advice will no longer be available from local authority services, although we will still have to ensure that we mitigate any consequences of the moves.

The point is that everything will happen online. If someone has to claim housing benefit after 2013, they will have to go online to deal with the universal credit administrators, and that will simply cause chaos. After all, those who require housing benefit are those who are least able to deal with such situations online. It is going to be very problematic.

I think that Peter Meehan has something to say on the issue.

Peter Meehan: Absolutely. As Harry McGuigan has pointed out, the new universal credit procedure will require claimants to claim online, although Lord Freud has suggested that there will be limited call centre back-up and, perhaps, the possibility of face-to-face meetings. Our plea is to recognise that Scottish local authorities, which already administer housing benefit, are ideally placed to be the point of claim for housing benefit and, indeed, universal credit.

We should not forget that claiming housing benefit is not just a matter of filling out a form. Individuals need to supply details of their rent and tenancy agreement, and the local authority goes through a validation and verification process before it pays out anything. It is not clear how the DWP will do that. After all, it does not have the same network of offices, especially in remote areas. We think that local authorities are best placed to carry out the work and that they can play a role in the administration of the universal credit.

On the question of implementation, one of our biggest concerns relates to council tax benefit. As part of the welfare reforms, that benefit will cease to exist at the end of the financial year 2012-13 and, on the first day of the next financial year—in other words, in April 2013—we will be expected to have in place a replacement council tax support scheme.

Moreover, the Scottish Government will get 10 per cent less money than is currently spent on council tax benefit. As a result, local authorities and the Scottish Government are feverishly trying to decide which group of people to pass the 10 per cent cut on to. In England, pensioners are being protected—but if you do that, you will have to give other people a 20 per cent cut.

We are trying very hard to get DWP to engage with us on putting in place a new replacement for council tax benefit, but the Scottish Government and COSLA are very much at the tail of such discussions, which are taking place between DWP and the Department for Communities and Local

Government. We are getting only the crumbs from the table of that consultation.

The Scottish Parliament and COSLA need to push very hard on this issue and say, “Look—if you don’t engage with us and help us to bring forward some alternatives, we ain’t going to have a replacement for council tax benefit in 2013”. That is the reality of the situation.

The Convener: I look forward to reading the *Official Report* and marrying it to all your written evidence. Your responses have been very helpful and I thank you all very much for attending.

I suspend the meeting briefly to allow the witnesses to leave.

12:00

Meeting suspended.

12:03

On resuming—

Subordinate Legislation

Road Traffic (Permitted Parking Area and Special Parking Area) (City of Edinburgh) Designation Amendment Order 2011 (SSI 2011/323)

The Convener: The next item of business is consideration of subordinate legislation. I refer members to the cover note for the amendment order and point out that no motions to annul have been received. Does the committee agree that it does not wish to make any recommendations on this order?

Members *indicated agreement.*

Housing (Scotland) Act 2010 (Commencement No 4) Order 2011 (SSI 2011/339)

The Convener: The next item is consideration of a commencement order not subject to parliamentary procedure. I refer members to the cover note on the instrument and invite the committee to take note of it. Is that agreed?

Members *indicated agreement.*

Petition

Independent Vehicular Ferry Routes (PE1192)

12:04

The Convener: Item 6 is consideration of PE1192, from Donald Ewen Darroch, on the governance and support of essential ferry services. I remind members that the Scottish Government intends to publish its ferries review later this year and that the committee has agreed to scrutinise it once it has been published. I suggest that, as with PE1390, which also relates to the governance of ferries and was considered on 5 October, the committee agree to consider the petition further as part of the proposed evidence session with the Minister for Housing and Transport on the outcome of the ferries review. Are members agreed?

Members *indicated agreement.*

The Convener: We now move into private session.

12:05

Meeting continued in private until 12:29.

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e-format first available
ISBN 978-0-85758-878-4

Revised e-format available
ISBN 978-0-85758-895-1