



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

FINANCE COMMITTEE

Tuesday 23 March 2010

Session 3

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FINANCE COMMITTEE

8th Meeting 2010, Session 3

CONVENER

*Andrew Welsh (Angus) (SNP)

DEPUTY CONVENER

*Tom McCabe (Hamilton South) (Lab)

COMMITTEE MEMBERS

*Derek Brownlee (South of Scotland) (Con)

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

*Linda Fabiani (Central Scotland) (SNP)

*Joe FitzPatrick (Dundee West) (SNP)

*Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD)

*David Whitton (Strathkelvin and Bearsden) (Lab)

COMMITTEE SUBSTITUTES

Gavin Brown (Lothians) (Con)

Lewis Macdonald (Aberdeen Central) (Lab)

Stewart Maxwell (West of Scotland) (SNP)

Liam McArthur (Orkney) (LD)

*attended

THE FOLLOWING GAVE EVIDENCE:

Colin Affleck (Scottish Government Housing and Regeneration Directorate)

Michael Cameron (Scottish Housing Regulator)

Aidan Grisewood (Scottish Government Housing and Regeneration Directorate)

Yvonne Rollins (Scottish Government Housing and Regeneration Directorate)

CLERK TO THE COMMITTEE

James Johnston

LOCATION

Committee Room 2

Scottish Parliament

Finance Committee

Tuesday 23 March 2010

[The Convener *opened the meeting at 14:02*]

Housing (Scotland) Bill: Financial Memorandum

The Convener (Andrew Welsh): Good afternoon. Welcome to the eighth meeting of the Finance Committee in 2010. I ask everyone present to turn off their mobile phones and pagers.

Under the first item of business today, we will take evidence on the financial memorandum to the Housing (Scotland) Bill from the Scottish Government's bill team. I welcome to the committee Colin Affleck, policy lead on the private rented sector; Michael Cameron, the acting chief executive of the Scottish Housing Regulator; Aidan Grisewood, deputy director, social housing division; and Yvonne Rollins, policy lead on the right to buy.

Would anyone like to make an opening statement?

Aidan Grisewood (Scottish Government Housing and Regeneration Directorate): I will make a brief statement.

As you can see from the cast list, the bill covers quite a broad range of housing topics. Its overarching purpose is to improve the value and supply of social housing and the conditions of the overall housing stock.

The bill's provisions have been developed through extensive consultation and discussions with stakeholders. That process began in 2007, with the publication of the discussion document on housing policy, "Firm Foundations: The Future of Housing in Scotland". The provisions take account of stakeholders' views, and ministers believe that most stakeholders support the principles that underpin the bill. However, they recognise that there are aspects of detail that various groups would like to address through amendments to the bill. To that effect, Mr Neil has established a bill sounding board as a forum for stakeholder discussion of potential amendments, and he wants to work with the board and the lead committee in identifying amendments that will improve and strengthen the bill.

The contents of the financial memorandum also reflect consultation with stakeholders, particularly with the Convention of Scottish Local Authorities and the Scottish Federation of Housing

Associations, on the impact of right-to-buy reforms on social landlords.

My colleagues and I will do our best to answer any questions that you might have.

The Convener: I note that you cannot say at this stage what the costs of the Scottish social housing charter will be, as it is in the process of development. Can you not even give us a best guess or a rough estimate? What is the problem there, and when will it be solved?

Aidan Grisewood: The bill sets out a process and a framework for the charter but the content will be developed through a prolonged process of extensive consultation that will start at the end of this year and continue through to next year. The framework is a mechanism by which we can put into effect ministers' desire to separate out outcomes and standards from the process of monitoring and assessing performance against them. However, the standards themselves will be produced after the consultation that I have outlined.

Malcolm Chisholm (Edinburgh North and Leith) (Lab): Part 1 of the bill deals with the Scottish Housing Regulator. Are the costs purely transition costs or will there be costs—or savings—in the long run?

Aidan Grisewood: The transition costs include the cost of recruiting a chief executive and a couple of members of SHR staff, as well as a particular cost associated with the information technology system that the SHR wants to use, which will be used to monitor and track performance against the charter.

With regard to the longer-term costs, the intention is that the budget bills in future years will determine the overall budget for the SHR.

We envisage the work that is being done as being all about realigning the resources within the SHR towards the types of activities that the charter will cover, such as assessment and appropriate interventions rather than routine inspection work.

Malcolm Chisholm: Some people are concerned about the loss of cyclical inspections, but we might think that that would result in savings. However, are you saying that the people who are currently doing the cyclical inspections will be doing something else instead?

Aidan Grisewood: As paragraph 207 of the financial memorandum says, the 7.5 per cent scrutiny saving that is being set across Government, including the SHR, is consistent with the approach that involves the SHR realigning its activities towards being more risk based, proportionate and targeted. The charter and the measures that are in the bill are consistent with

those sorts of efficiencies. The overall budget is an issue for future budget bills.

David Whitton (Strathkelvin and Bearsden) (Lab): The financial memorandum is a bit light on numbers for such a document. Can we not get some more numbers? There are margins of uncertainty about the SHR and about the impact that establishing the body will have on other elements of the budget, and local authorities and the Council of Mortgage Lenders have questioned the financial impact of the bill. This is supposed to be a financial memorandum, yet it contains little financial information.

Aidan Grisewood: What we have tried to do is quantify what we can quantify, but there are certain elements, such as the charter and the set of outcomes around it, that are undefined at the moment, because they will be developed following the consultation process that is still to come. However, the presumption in the financial memorandum and the policy memorandum is that the charter will not add any extra unfunded burdens to the sector.

David Whitton: East Lothian Council's submission to the committee says:

"increased reporting mechanisms are likely to require additional financial resources".

Do you agree with that?

Aidan Grisewood: That is partly why we went through the consultation process. There was some uncertainty in the sector about what the effects will be. That is why, in the financial memorandum and the policy memorandum, we tried to set out what sorts of things the charter will cover, as far as we could. However, it is envisaged that it will do no more than require information that a good, well-organised landlord would be able to provide through day-to-day management anyway—that is the sort of level that we are pitching at.

Michael Cameron (Scottish Housing Regulator): Until we know the content of the charter, it is quite difficult to be precise about the monitoring arrangements that we will apply to. That said, it is likely that we will place considerable reliance on landlords' self-assessment and self-reporting of their performance against the charter. That being the case, we anticipate that there will be little cost to landlords in providing the regulator with the information that it will require.

David Whitton: But there is another element to this. Glasgow City Council and Aberdeenshire Council have raised concerns about their ability to meet the funding and staffing requirements. What work has been done to ensure that this can be implemented and funded?

Aidan Grisewood: I think that that is to do with the private sector reforms, so I will ask Colin Affleck to respond.

Colin Affleck (Scottish Government Housing and Regeneration Directorate): Are you asking about the private sector?

David Whitton: Yes. Both councils have raised concerns about their ability to meet the funding and staffing requirements in relation to the implementation of the Housing (Scotland) Act 2006 powers on unsatisfactory private housing. What work has been done to ensure that those powers can be implemented and funded?

Colin Affleck: In the bill, we are extending some of the provisions in the 2006 act, although we are not extending them very far. We are giving local authorities some additional powers that they and other stakeholders asked for. Most of the extensions to powers will involve minimal costs to local authorities and they are all discretionary—if local authorities want to use them, they can. It is up to local authorities to decide how to prioritise their work on private sector housing and to use those powers if they want to.

The Convener: Jeremy Purvis has the last question.

Jeremy Purvis (Tweeddale, Ettrick and Lauderdale) (LD): Am I right in understanding that the Government has said that the establishment of the regulator will have a net saving with regard to regulation efficiencies, or is there a net additional cost of £435,000 from now?

Aidan Grisewood: The amount that you have identified is for the transition costs that we set out, which are a consequence of the bill. I suppose that we are also saying that there is potential for efficiencies in enshrining in law regulation that is more risk based, proportionate and targeted and less focused on routine inspections, which are onerous to the regulator and those who are being regulated. That is reflected in the fact that we envisage that the SHR will be able to continue to deliver against a lower budget in 2010-11 and beyond.

Jeremy Purvis: I see that the SHR is described as being a non-ministerial department within the Scottish Administration. Legally, will it be a non-departmental public body?

Aidan Grisewood: No. It is a different type of entity.

Jeremy Purvis: So, legally, it is simply part of the Scottish Government.

Aidan Grisewood: It is part of the Scottish Government.

Jeremy Purvis: I see that funding for the costs to which you referred—£435,000—is coming from

the existing housing and regeneration budget. Will that be from grants that would otherwise have gone to housing associations or councils?

Aidan Grisewood: The overall budget is made up of a number of different programmes, including affordable housing grants and private sector work. It is not possible to say exactly where that money would otherwise have gone.

Jeremy Purvis: Why not? You have said that the £435,000 is new and that it is going to be coming from the directorate's budget. Presumably it has to come from somewhere.

14:15

Aidan Grisewood: The overall budget and the allocations have been determined in the knowledge that those are the costs that we have to cover. It is not as if it is a fixed, flat budget and money comes to one area rather than another.

Jeremy Purvis: The budget that Parliament approved for 2010-11 includes provision for the bill.

Aidan Grisewood: That is right.

Jeremy Purvis: I do not know whether the Government can come back to us and state precisely where that is.

Aidan Grisewood: Under the budget bill that was passed, there is £4.7 million on the SHR line even though the budget for the department as a whole is £4.3 million. The cost is within the line for the SHR.

Jeremy Purvis: Finally, I will ask about the potential impact on the loss of investment capacity. Depending on the different housing market scenarios, the estimated impact of the right-to-buy reform ranges from £100 million to £1.4 billion of lost investment capacity. The financial memorandum states:

"different housing market scenarios make a more significant impact, with investment capacity projected to fall by a maximum of £1.4 billion."

Is it right to say that that is the equivalent of what could otherwise have been reinvested within social housing?

Yvonne Rollins (Scottish Government Housing and Regeneration Directorate): Are you referring to table 5?

Jeremy Purvis: Yes.

Yvonne Rollins: I will get table 5 in front of me. It is the Scottish Government's estimate of the impact of the right-to-buy reforms on local authority landlords' investment capacity. The first column, headed "Investment capacity under base case", ranges from £2.7 billion to £1.3 billion, depending on the housing market scenario. In

other words, under the base case, even without the reforms, the amount could vary due to housing market conditions. The right-hand column refers to the impact of our right-to-buy reforms on investment capacity. The Scottish Government is saying that the difference in local authority landlords' investment capacity between the base case—in other words, with no reforms at all—and the sector under the reforms, is very marginal. That is the £0.1 billion figure, which occurs only under a high sales rate.

Jeremy Purvis: Is it the Government's view that "very marginal" equates to £100 million?

Yvonne Rollins: Over the spread of local authority landlords—yes.

Jeremy Purvis: Right, so £100 million less for investing in social housing is considered to be "very marginal".

Yvonne Rollins: That loss in right-to-buy capital receipts revenue can be offset by the continuation of rental income streams from properties that would otherwise have been sold. Landlords can use the revenue generated from that in various ways to offset the impact of not having a capital receipt. They can use revenue for capital expenditure or, under the prudential borrowing regime, they can borrow money for capital investment and use the revenue to pay it off.

Jeremy Purvis: Forgive me, but it is not offset. Borrowing is not free and offsetting using revenue instead of capital means that landlords do not have revenue for on-going maintenance programmes or revenue that comes back to the housing account. It is not a case of offsetting it—more cost is associated with that.

Yvonne Rollins: I will perhaps take a step back and say that the modelling that Scottish Government analysts undertook was undertaken at the options appraisal stage. It was certainly always the minister's intention to consult on the financial impacts on social landlords. Their response was, for the most part, that they are supportive of the reforms and that the impacts would be minimal and could be managed through various processes such as review of their business and investment plans to meet the cost demands.

The Convener: We will have a final question from Malcolm Chisholm.

Malcolm Chisholm: My question picks up on two issues that have been raised, carrying on from where Jeremy Purvis left off. The financial memorandum says that the reform of the right to buy

"will only have an impact after 2015".

It goes on to explain why, and the situation is as I understood it to be, which is that new tenants would currently have to wait for five years anyway. That is why I was surprised by the mention of a difference of even £100 million. Why will there be that gap between £2.7 billion and £2.6 billion if, as we expect, there will not be any difference and the financial memorandum says that there will not be any impact until 2015? How is that gap accounted for? Is it something to do with housing associations rather than council houses?

Yvonne Rollins: The two key reforms that will contribute to the impact on sales numbers, which will drive the financial impact, are the ending of the right to buy for new-supply social housing and the ending of the right to buy for new tenants. Scottish Government modelling estimates that ending the right to buy for new tenants will account for about two thirds of the overall impact, which, as you rightly say, will not occur until five years after the bill has been enacted. However, ending the right to buy for new-supply social housing will take effect immediately and will account for some capital receipt losses in that five-year period.

Malcolm Chisholm: The text of the financial memorandum is, therefore, misleading. Paragraph 229 gives a different impression, unless I am misreading it and it is only about new tenants. That may be the explanation, but that paragraph gives the impression that there will not be any impact.

There is a more fundamental question. As Jeremy Purvis has suggested, £100 million is a lot of money anyway, but the sum will get much greater thereafter. What is your projection for the following five years, which might be a more significant figure?

Yvonne Rollins: The Scottish Government did not undertake modelling for the period beyond 2015 due to the increased margin of uncertainty. I return to the point that social landlords are the best evidence providers in that respect. Our sales modelling indicates that, once the reforms take full effect, right-to-buy sales are likely to decline by 20 per cent—that is, a fifth of what they would have been under the base case of no reforms. That might give you an indication of the scale of the financial impact beyond 2015.

Malcolm Chisholm: As David Whitton has mentioned, Glasgow City Council says that it faces difficulty in funding the

“staffing requirements for implementation of the 2006 Act.”

It is not clear to me, from the council’s submission or from my reading of the bill, to what extent the new provisions on unsatisfactory private housing will have a financial impact. That is partly because what is in the bill is rather obscure unless it is cross-referenced to the previous bill, which I have

not done yet. Does what is proposed in the bill have any financial implications, or is it really just what was created by the 2006 act?

Colin Affleck: The changes that the bill makes are simply adjustments to the provisions in the 2006 act and will not have a great financial impact on local authorities. As I said, they are discretionary powers, so local authorities are at liberty to use them or not use them, just as they can choose whether or not to use the underlying powers in the 2006 act. The bill amends the provisions in the 2006 act in a way that local authorities and other stakeholders wanted, enabling them to use their powers more effectively.

The Convener: Do our witnesses have any final comments?

Aidan Grisewood: No, that is fine, thank you.

The Convener: That being the case, I thank all our witnesses for sharing their expertise and for their detailed contributions.

Decision on Taking Business in Private

14:25

The Convener: Item 2 is to agree whether to consider our draft report on the financial memorandum to the Housing (Scotland) Bill in private at future meetings. I propose that we do so. Is the committee agreed?

Members *indicated agreement.*

End of Life Assistance (Scotland) Bill: Financial Memorandum

14:25

The Convener: Item 3 is consideration of our approach to scrutiny of the financial memorandum to the End of Life Assistance (Scotland) Bill. The paper from the clerk suggests that we may want to adopt level 1 scrutiny for the financial memorandum and provides us with a list of affected bodies from which we may want to seek written evidence. Are members content with the suggestions in the clerk's paper?

Members *indicated agreement.*

**Children's Hearings (Scotland)
Bill: Financial Memorandum**

14:26

Meeting continued in private until 15:50.

14:25

The Convener: Item 4 is consideration of our approach to scrutiny of the financial memorandum to the Children's Hearings (Scotland) Bill. The paper from the clerk suggests that we may want to adopt level 2 scrutiny for the financial memorandum and seek written evidence from all local authorities and the Scottish Children's Reporter Administration before taking oral evidence from the bill team. Are members content with the suggestions in the paper?

Members *indicated agreement.*

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