Local Government and Communities Committee

Scrutiny of the Draft Budget 2017-18

Submission from Orkney Islands Council

Question 1: We want to hear your views on the impact of budget reductions to date on local services, etc.

The squeeze on Council funding has been significant in recent years. In addition to the very real cuts in general revenue grant and the usual and expected cost of living increases we have had to deal with amongst other pressures, the additional costs of auto enrolment; the additional national insurance costs from the end of contracting out; the living wage; the enormous burden of self-directed support that has not come anywhere near to the cost neutral assurances given around its introduction; and holiday pay on overtime.

Orkney Islands Council anticipates that it will spend £2M on self-directed support in 2016/17 with no compensatory savings to offset the cost. This was a policy that was meant to afford choice to service users but also allow a reallocation of resources. In a small rural authority it has simply not been possible to reallocate resources from the very few authority provided services and the self-directed support has been an additional unfunded burden.

The Council has however sought to protect local services as much as possible and limit job losses and service cuts. The Council has made savings/cuts in many areas that have limited the impact on service delivery to the most vulnerable. Examples of the savings/cuts have been in grounds maintenance where the specification has been much reduced; reduced verge maintenance; less road surfacing; public toilet closures; cut in tourism marketing; reducing hours worked by staff in certain areas; reductions in travel; reduced economic development budgets and cuts to schools non-teaching staff budgets.

Many services are sustained by very small teams, some with one or two individuals providing the service so that any further reduction will mean that there is a danger that no service can be provided.

Question 2: We want to hear your views on the extent to which local authority spending decisions prioritise funding for policies that are likely to reduce inequalities.

The Elected Members budget choices are informed by completed equality impact assessments (EQIAs) for the individual budget proposals. There is also an overall EQIA completed for the totality of the budget to ensure that there are no groups disproportionately disadvantaged.

There has been more growth in the Council’s Social Care budgets in recent years than in other areas. This prioritisation is likely to have reduced inequalities but it must be recognised that cuts in service provision in other areas may also introduce
inequalities. Reductions in public transport subsidies for example have been highlighted as a move that would disadvantage the less well off.

**Question 3:** We therefore invite written evidence on how General Fund Balances are used by local authorities and in particular the extent to which the General Fund Reserves are being used to offset savings in the short to medium term.

Orkney Islands Council has maintained a fairly constant level of unallocated General Fund Reserve for a number of years. In percentage terms this is higher than the level held by most councils but with the smallest budget of any Scottish council it considered prudent to hold a higher percentage level of the revenue budget as a balance as we are probably more exposed to catastrophes than a lot of Councils due to the provision of significant harbour services, ferry operations and the island airport operations.

Orkney is also in a fortunate position in having reserves derived from oil port business. £3.76M is being used annually from the oil reserves to support General Fund Services. The introduction of this additional funding stream to General Fund Services several years ago was a significant contributory factor in the realisation of budget surpluses for a few years. The contribution from the oil reserve is effectively helping the Council avoid much more unpalatable budget reductions. The cost pressures and the extent of the cuts in funding have now changed the position to one where the General Fund is overspending despite the contribution from the oil reserves.

**Question 4:** What are your views on the range of local authority activities that should be considered ‘local Government budget’ as compared with funding that is provided elsewhere but which may support local government activities and outcomes?

In terms of the decentralisation of local authority functions, budget and democratic oversight to local communities it must be pointed out that the national Police and Fire arrangements have seen a move in the opposite direction where there is no longer proper local democratic oversight by the local community. The Community Council model followed in Orkney already gives local communities a small budget to manage and significant influence in the Council processes.

The Council would take the view that providing £250M for social care services via the Health budget adds a completely unnecessary complication to the workings of the IJB. It would have been far simpler and less contentious to have made the £250M a ring fenced grant to local authorities. As it has been provided via a Health budget it should not then be recorded as Local Government spend.

**Housing Supply Budget**

**Question 5:** In particular we want to hear your views on:
How well the centrally managed funding programmes are managed, what outcomes they deliver and do they represent value for money? To what extent are the innovative funding packages leading to a change in the way affordable housing is being delivered? (information on innovative financing is available on the Scottish Government website at this [link].) The extent to which the centrally managed funds support development of the appropriate mix of affordable housing to meet housing needs (such as mid-market rent as compared with social rent or private rent)?

The centrally managed funds are managed well by the Inverness office of the Scottish Government and Council officials speak to colleagues in the Scottish Government about the housing development programme on a regular basis. Scottish Government officials are approachable and understand the pressures of developing affordable housing in rural and island areas. The Affordable Housing Supply Programme has been very successful in Orkney over recent years as both the Council and Orkney Housing Association have had substantial development programmes in place. The impact of current grant levels on future housing developments is covered in question 8.

The Council warmly welcomed the launch of the Rural Housing Fund in February and the Islands Housing Fund in September and see these funds as an excellent way of flexibly meeting housing need across Orkney. The Council are supporting seven island based development trusts to develop applications for the Islands Housing Fund which would see much needed affordable housing developed in some of Orkney’s most vulnerable communities. The flexibility around tenure options as well as the organisations that can develop housing through the funds is hugely important and will be key to the success of the fund.

Open Market Shared Equity (OMSE) is another fund that Council officials are working closely with Scottish Government officials on to maximise the impact that can be had in Orkney. A new build OMSE project that allows Orkney’s developers to build property and then market it as OMSE eligible will provide much needed additional low cost home ownership options and provides developers with a secure fund going forward. The increase on OMSE benchmark levels for 2016 was also welcomed by the Council and has improved the ability of households to find properties that are eligible for OMSE.

OMSE and other low cost home ownership options also provide excellent value for money as the household funds at least 40% of the purchase, which is more cost effective than the funding provided to housing associations for social rented housing development.

Help to Buy has also proved successful in Orkney with additional properties being developed in 2016. The Council see new build OMSE as the best longer term option for developer led low cost home ownership provision, but Help to Buy still has a place.

The Council believes that these new innovative approaches are helping with the provision of affordable housing and provide options that could not be delivered easily
by Councils or housing associations. The Scottish Government's roll out of these programmes which keeps Councils centrally involved in determining whether individual projects meet local housing needs is also helpful and helps keep an element of local control.

The mix of affordable housing supported by Scottish Government funds is good. There is limited demand for mid-market rent as low cost home ownership is targeted at the same households and the private rented sector relies on the use of existing housing stock rather than new build. However, there is a gap in provision around low cost home ownership provision for households that don’t want to live in more urban areas where the larger Council, housing association and developer schemes are located. Developers do not want to take on the risk of delivering very small numbers of low cost home ownership properties in rural areas and the Council and housing association cannot provide cost effective projects in these areas due to the inability to achieve any economies of scale.

Rural Home Ownership Grants (RHOGs) were particularly effective in Orkney in securing the construction of new houses where people wanted to build houses thereby achieving the aim of building houses where the real demand was. The level of grant intervention at between 30-40% was at the time, less than half of the intervention rate to achieve a housing association property. The area where this scheme fell down was when it was widened out to include properties that had been on the market for more than six months. There was no additional housing capacity created as a result of grant aiding the purchase of a house that was already built. A RHOG style project based around an equity stake rather than a grant would be of real interest to the Council. The Council is eagerly anticipating the results of the self-build pilot project that is being run in Highland as this style of project may help fill the gap left by the removal of the RHOG.

Question 6: To what extent do the Resource Planning Assumption and the Strategic Local Planning Agreements processes effectively enable local housing needs to be prioritised and resourced?

The Strategic Housing Investment Plan (SHIP) is a very useful tool and the Council utilise it as the key programming planning tool for affordable housing development. The changes in the SHIP for 2016 are welcome and the inclusion of both Rural Housing Fund style projects and infrastructure development are welcome and allow the SHIP to cover the full affordable housing remit. A key advantage for the Council is that the same official that leads on the SHIP, the housing development programme and liaison with the Scottish Government, housing association, Planning colleagues, developers and development trusts interested in the Rural Housing Fund is also responsible for the Housing Needs and Demand Assessment. This helps to effectively line up the development programme with housing needs.

Resource Planning Assumptions are useful as they give an indication of funding going forward 3 years and the Council welcomes the funding commitment to the AHSP in Orkney shown by the Scottish Government, but Council officials have raised concerns with Scottish Government officials that Orkney will not be able to maximise the use of the available AHSP funding going forward if per-property grant levels are not raised significantly.
It is understood that without a longer term funding agreement between the UK and Scottish Governments it is harder for the Scottish Government to give, for example, a 3 year budget for housing development, but with capacity in terms of finance and staffing issues within the Council and housing association an approved 3 year funding allocation would make forward planning and project development more effective and would allow both organisations to more effectively plan staffing and finance commitments for the development programme going forward.

**Question 7: We seek written responses on whether the increased subsidy levels will support new housing developments; and in particular whether the flexibility in subsidies will improve the provision of housing for older people or for people with particular needs.**

The Affordable Housing Supply Programme has been successful in Orkney at delivering new build social rent and some low cost home ownership. With both the Council and Orkney Housing Association both having substantial build programmes over recent years. However, financial constraints mean that without a significant increase in the per-property funding levels received currently, particularly by the Council, much needed new build development through the Affordable Housing Supply Programme will not be possible due to financial capacity issues with the Council’s Housing Revenue Account (HRA). The Council has injected over £4m of its oil reserves into its affordable housing development programme to make up the difference between Scottish Government funding, the borrowing capacity of the HRA and development costs. This is not sustainable beyond the currently approved projects and future Council developments will only be possible with higher per-property subsidy levels.

Orkney Housing Association is also trimming back on its development programme due to financial constraints around the amount of finance it can raise for development. The housing association is also of the opinion that Shared Equity developments are harder to justify at current funding levels.

Councils regardless of where they are in Scotland have the same per-property benchmark level of £59,000 per-unit with no uplift to recognise rural or island development costs. The benchmark for island housing associations however is £84,000 per-unit, which is an uplift of around £12,000 compared to urban housing associations. The Council was delighted that the Scottish Government took on board the issue of higher development costs in rural and island areas which it has raised over the years when setting benchmark levels for housing associations. However, the Council would ask that a similar uplift be introduced for island based councils who face the same development cost pressures as housing associations, but do not receive any additional funding to support development. Future council housing development in Orkney is seriously jeopardised because funding levels are not aligned to development costs.

A similar £12,000 uplift for Councils as that received by island housing associations to around £71,000 a property would allow the Council to continue developing social rented housing to help meet the needs of Orkney’s people and assist in meeting the ambitious 50,000 new homes target of the Scottish Government.
The increased flexibility around funding levels is welcome and one Council project will hopefully receive funding over the £59,000 per unit because of additional costs. However, the available flexibility does not cover the additional costs that developing in rural and island areas entail.

The Council is doing what it can to deliver housing for households with special needs and older people and is including some housing for clients of the all age disability service within its current development programme. Eight units of extra care housing have already been delivered as part of the house build programme. Orkney’s rapidly aging demographic will require more specialist housing to be developed to meet the needs of our aging population and extra care housing properties are planned to compliment two new care home developments that the Council is undertaking, however these projects will rely on additional funding being made available.

**Question 8: Do you have any other comments to make about the outcomes the Scottish Government seeks from its Housing Supply Budget and how it delivers those outcomes?**

The Rural and Islands Housing Fund projects along with OMSE are very welcome and provide opportunities to fund projects that don’t fit within the AHSP, however, going forward the Council would like to see the funds for projects like those supported through the Rural and Islands Housing Fund as well as OMSE delivered through the AHSP. This would give more local control and flexibility around project development, as well as more assurance to local developers and development trusts that the projects they were developing as part of the SHIP could be funded and didn’t rely on a competitive bidding process.