Local Government and Communities Committee

Scrutiny of the Draft Budget 2017-18

Submission from East Ayrshire Council

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

East Ayrshire Council has a Transformation Strategy for the period 2012-2017, which planned for savings of around £35m over this period. This covered a range of workstreams and efficiency programmes, and impacted across every area of service delivery. Where possible services have been redesigned to ensure that highly effective, outcome focussed services are still delivered. There have however, been some very real changes in this time, with a number of high impact decisions taken by the Council:

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<tr>
<th>Create a Leisure Trust</th>
<th>Protect leisure, countryside and cultural services by opening up opportunities for charitable reliefs, external funding and new opportunities to develop the service.</th>
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<tbody>
<tr>
<td>Vibrant communities team</td>
<td>The creation of this team (from a range of legacy service areas) saved money, but transformed the way in which communities interact with the Council. More community engagement and empowerment has followed, and a number of 16 Community led Action Plans have been developed by communities.</td>
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<td>Community asset transfer</td>
<td>This has seen a range of facilities (over 30) being transferred to community groups to run. These have included long leases and sales, and is allowing communities to retain facilities where the funding pressures had previously resulted in the Council determining that they would need to be closed.</td>
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<td>Ayrshire Roads Alliance</td>
<td>A shared services approach to delivering a roads design, build and maintenance function, delivered by Easy Ayrshire on behalf of both itself and South Ayrshire Councils.</td>
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<td>Local office rationalisation</td>
<td>The Council previously had 18 local offices for face to face customer contact. This reduced to 5 in the main areas of population, with enhanced telephone contact arrangements and a partnership with the post office and Paypoint also put in place. This has allowed the other 13 to close.</td>
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<td>Community transport</td>
<td>A partnership with a voluntary community transport organisation was put in place allowing savings to be made compared to the previous in-house model. There was also a benefit to improving the sustainability of the community group.</td>
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<td>Waste management</td>
<td>A range of initiatives were taken forward to save money in this area, with the ultimate goal of moving to</td>
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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 Transformation Strategy outlined a range of strategic priorities, aligned to the community plan and SOA. It also identified a number of strategic imperatives which all actions (investment or reduction) should be tested against. These imperatives included:

- Outcomes based
- Preventative spend / early intervention
- Equality

A significant challenge facing the Council is the need to invest in early intervention / preventative approaches, while also having to maintain current levels of service delivery. This is compounded by reducing levels of funding.

The Council created a Welfare Reform Fund, and utilised this one-off funding to support specific initiatives that were designed to mitigate some of the impacts of welfare reform. It is widely understood that the welfare reform agenda was seeing a reduction in benefits payable to some very vulnerable areas of our communities.

It is very difficult to focus on reducing inequalities where there is a continuing expectation to maintain service delivery across specific areas. The inability for example, to reduce teacher numbers to better reflect local circumstances, is impacting on our ability to free up scarce resources for investment in high priority areas such as Alcohol and Drugs.

Any scarce pockets of funding that are identified, often on a one-off non recurring basis, are targeted at the areas of highest need. We have identified significant areas of investment over recent years, funded from reserves, that have been designed to address areas of inequality. The challenge however, is how to maintain and indeed mainstream these initiatives when funding is increasingly reduced.

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.

As noted above in question 2 reserves have been used locally to provide funding for initiatives that deliver against the strategic priorities of the Council. Ongoing, prudent financial management seeks to maintain an appropriate level of reserves, and typically we have maintained around 4% of our annual budgeted expenditure as an uncommitted reserve.

Last year’s budget settlement in terms of both timing and the scale of the reduction, was such that our established Transformation Strategy assumptions and plans were not able to close the budget gap. We were able to identify and deliver a range of savings options, but were left with a gap of around £5m that had to be filled from uncommitted balances.

The prudent building up of balances allowed this to be agreed by Council, although it is very much a short term one-off course of action. The immediate concern then becomes the identification of recurring savings of the same value from the next financial year, on top of the next round of funding cuts and inflationary / demand pressures.

General fund balances will be required to support the transformation of services and Councils over the coming years. Service redesign comes at a cost e.g. investment in new technologies to become more efficient; severance costs as staff numbers reduce. It is therefore important to have a level of reserves that can support this work, recognising that the traditional approach of spend to save (where the saving can ultimately pay for the investment), will be challenged as we need the saving to balance the budget.

Our Transformation Strategy delivered savings over a five year period, and as such reserves were used to smooth out the savings profile. It is always important to recognise and understand the timing of when savings will deliver, and ensure that any slippage can be covered elsewhere, or ultimately through a draw against balances.

To assume that reserves can be used to facilitate filling budget gaps in the medium to long term would be reckless financial management. The very short term use of reserves, backed up with a plan to address the issue on a recurring basis, is a different issue.

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?

It is important to ensure that Local Government is properly funded for the services that it delivers. While we can understand why there would be a wish to demonstrate areas of the Scottish Budget being protected, the governance and accountability
around money being routed through, e.g. NHS for Local Government services using the £250m example, is very challenging.

Simplification of funding mechanisms, and removal of ringfencing and onerous grant conditions is seen as essential in allowing local government the flexibility to plan strategically and deliver services within the reduced level of funding now available.

The increased use of conditionality when asking Councils to accept grant is proving to be very challenging. This is brought into stark focus with the requirement to protect teacher numbers, which in essence requires a significant element of the Council’s budget to be “ring-fenced”. This requires Councils to make savings in other non-protected areas of the budget, jeopardising service delivery in these areas, while potentially having sound local rationale for making savings in the protected budgets, but not being able to do so. An example of this in East Ayrshire is the school rationalisation programme we are currently delivering. This will see, for example, the merger of two large academies in Kilmarnock into one new school. There will be a clear rationale for reducing teacher numbers following the merger, while improving educational provision. This however, will not be permissible due to the grant conditions.

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?

Centrally managed funding programmes, in terms of the Affordable Housing Supply Programme (AHSP), at a local level are managed by Scottish Government colleagues based in Ayr and Hamilton for East Ayrshire. East Ayrshire Council works closely with the Scottish Government to support the national priority to deliver 50,000 new affordable homes across Scotland over the next five years, whilst responding to locally determined objectives, as set out in the East Ayrshire Community Plan, Local Housing Strategy (LHS) and Strategic Housing Investment Plan (SHIP).

At a national level, the programmes include initiatives such as Help to Buy and the Low cost Initiative for First Time buyers (LIFT) which include products to support home ownership. The Council is supportive of initiatives that reduce barriers to the delivery of new affordable homes and maximise opportunities for our residents to realise their aspirations in terms of appropriate housing solutions. However, as Strategic Housing Authority, the Council must also respond to housing need at the local level in terms of new supply, and draws on local data via population profiling, Housing Need and Demand Assessments (HNDA) and waiting list information. It appears that the Help to Buy initiative has proven to be popular among those residents who aspire to own their own homes, but have been unable previously to afford to do so in the private sector. However, the overwhelming need in East Ayrshire is for the provision of affordable housing to rent, and the Council's programme, as set out in the SHIP, seeks to continue to deliver this tenure, given the prevailing income profile. Indeed, it is understood that the Rural Housing Fund, to date, has only had one Expression of Interest level enquiry across Ayrshire, in East Ayrshire.
With regard to value for money, per unit subsidy levels have recently been increased across developing Local Authorities and Registered Social Landlords (RSLs) in response to a down-turn in the number of developing affordable housing providers where subsidy levels had previously been reduced. The increase in grant awards has allowed Local Authorities and RSLs to consider expanding their development programmes to support the delivery of 50,000 new homes over the next five years. However, Local Authorities still have a reduced per unit subsidy level, compared to RSLs, and ultimately, the balance of the capital cost requires to be paid for via prudential borrowing and rents. Value for money considerations must therefore go beyond the initial capital cost with the associated high specification standards, to the ongoing borrowing required by the affordable housing developer and the affordability of the resultant rent.

Further, with the announcement of the aspiration to deliver 50,000 affordable homes over the next five years, the construction industry is under increasing pressure to deliver in this timeframe, set against a back-drop of a skills shortage following the crash in 2007 when far fewer apprentices were recruited resulting in a lack of time-served trades and professionals currently available in the sector. Consequently, tender prices are being driven upwards. Procurement options and off-site manufacture may be key to help in addressing this issue. However, past attempts to promote initiatives such as lead developer proposals failed to take into consideration the time required from identifying suitable land to cutting the first sod, and as a consequence, had to be withdrawn. Further, skills shortages must be addressed through more effective working across the public and private sectors to promote trades and professions at an early age.

It is therefore essential that centrally managed programmes are sensitive enough to deliver outcomes that maximise the provision of right type of affordable housing opportunities in the right areas.

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 Council is supportive of innovative funding options, where these deliver the right type of affordable housing and where such models not only offer the reassurance affordable housing developers require in terms of due diligence, but also meet the needs of those people in housing need across tenures. However, models which are founded on short-term affordable housing delivery which is not sustained do not meet the needs of people who seek long-term security of tenure, and as Strategic Housing Authority, the Council must ensure that those people seeking to live in our communities are able to access affordable homes which will meet their housing needs throughout their lifetimes and their life experiences.

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)?

Since 2012-13, the Scottish Government has provided each council with a 3-year Resource Planning Assumption [1] which councils then use to develop Strategic
Housing Investment Plans (SHIPs). The core purpose of the SHIP is to set out strategic investment priorities for affordable housing over a 5 year period to achieve the outcomes set for the LHS. SHIPs will be the key documents for identifying strategic housing projects to assist the achievement of the 50,000 target. Priority projects may include, for example, those provided by local authorities or RSLs operating in the areas.

SHIPs are currently submitted to the Scottish Government every two years and form the basis of Strategic Local Planning Agreements (SLPAs) which are discussed with local delivery partners and then agreed with councils. SLPAs then form the basis of individual RSL and local authority programme agreements.

Need is identified via the HNDA and waiting list data across providers, and is articulated in the LHS for delivery via the SHIP. The Council is currently preparing its new HNDA to inform the content of both the new LHS and Development Plan in terms of affordable housing options.

As set out above, as Strategic Housing Authority, the Council seeks to deliver appropriate housing solutions to suit the identified needs of our residents. It has been the Council’s and partner RSLs’ experience that historical mid-market rent options have not been particularly successful in terms of uptake in the area, given the prevailing income profile. However, anecdotal information suggests there may be demand for this type of provision in particularly high demand areas. It would therefore be helpful to better understand the uptake of the Help to Buy initiative at a national and local level in terms of applicant profile, given the recently announced More Homes agenda, as the initiative appears to have been successful to date. It is understood, however, that levels of uptake of the Rural Housing Fund have been limited, with only one Expression of Interest stage application to date having been made across Ayrshire (in East Ayrshire).

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?

From January 2016, affordable housing grant subsidises for Registered Social Landlords and for Local authorities were increased. In addition, the Scottish Government increased the flexibility within the subsidies such that grants can be awarded for higher cost projects.

The Scottish Government revised the guidance associated with the development and delivery of the Strategic Housing Investment Plan in 2014 to inform the current system where Plans are developed every two years, (previously every year), to cover a five-year lifetime, with three-year Strategic Local Programme Agreements (SLPA). In its response to the Consultation in 2014, the Council expressed concern that the various timescales being proposed in the guidance appeared to be disjointed and would not resolve the focus on annuality of funding that prevailed at the time. The three-year SLPA was supposed to offer funding continuity and certainty that had been lacking.
Whilst the Council benefits from having a strong working relationship with colleagues at a local level within the Scottish Government, and with our developing RSLs, in monitoring and delivering the AHSP across East Ayrshire, there is still a focus on annual out-turn. Indeed, whilst the Council acknowledges the need to profile expenditure, programme projections are requested quarterly by the Scottish Government which does not allow for any fluctuations in programmes in-year. The three-year SLPAs do not function as such, as Resource Planning Assumptions (RPAs) are typically announced into the next financial year and therefore do not coincide with the SHIP process, and are subject to change at any time. The consistency and certainty RPAs and SLPAs were supposed to deliver, as set out in the guidance, have not been realised.

Whilst increased subsidy levels are welcomed, in-year grant subsidy changes require to be profiled in terms of their impact on prudential borrowing, rentals and the delivery of the programme in general. Development activity requires to be planned and programmed, albeit land assembly, infrastructure enabling, planning timescales, procurement options, construction methods, off-site assembly and post-completion processes may be better considered. Issues that have been highlighted for years as barriers to effective development still prevail.

Indeed, The Times’ ‘HousingScot’ supplement dated 20 October 2016 draws on a wide range of views from across the industry on the proposed delivery of 50,000 affordable homes in five years, noting that co-production provides an opportunity for the Scottish Government’s Joint Housing Policy and Delivery Group to engender “a new culture across the key delivery components of the industry” (Tom Barclay, Group Director of Property and Development, Wheatley Group and Co-chairman of the Group). Kevin Stewart, Scottish Government Minister for Local Government and Housing, notes that “we can only succeed if we all work together.” In the same edition, one industry representative admits that “half of [his] team is up to its knees in treacle battling the regulatory process—we need to work better at getting projects through planning and consents” (Ed Monaghan, Chief Executive of Mactaggart & Mickel Group). However, it is the collective process, rather than simply the planning system, that requires to be co-produced. Each perspective offered in the supplement broadly highlights the same barriers to development; a key issue of the More Homes agenda, and supports the realisation of the Scottish Government’s housing ambition. However, none of the features articulates how this goal is to be achieved on the ground. The current RPA and SLPA processes do not sit in isolation, and must be factored into the broader remit that stretches from suitable land identification to site completion and ultimately, the delivery of new affordable homes, along with the necessary practitioner skills to coordinate, manage and realise those stages on the ground.

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 Council welcomes the increased subsidy levels that have been introduced to support the delivery of affordable housing in response to identified need across East Ayrshire. It is noted that the AHSP allows for flexibility in the allocation of funds to
support higher than benchmark per unit costs being approved. However, the baseline RPA allocation remains the same, regardless of the flexibility that is available to Local Authorities in allocating individual scheme per-unit grant awards. Whilst higher unit costs may be associated with the design of community care housing where floor areas are typically greater, it is noted that the Consultation that preceded the subsidy increase considered the introduction of a ring-fenced allocation for the provision of community care needs housing, which was subsequently dropped.

With a growing older population, the need to be innovative extends beyond the delivery of the AHSP itself to the flexible design of new affordable homes. In this way, as Strategic Housing Authorities, Councils may plan proactively to ensure that residents with complex needs have their housing requirements met so as to support them to live in their communities. In order to achieve the flexibility of design required to ensure no new home evicts the resident throughout his or her lifetime, it is essential that the appropriate space standards and facilities are designed in from the planning stage. There is frequently a requirement for homes to have a larger footprint to accommodate wheelchairs, carer support in bathing and family life so that residents may feel they are a vital part of the community and not a label living in an institutional setting. The benefits in cost to the Health and Social Care budget, and more importantly, to the resident and his/ her family are already well-established. The Council has recent experience of this type of development where residents have been able to move from a range of settings into their own high quality properties with the appropriate smart technologies in place, along with on-site care, as required, so as to provide an assisted living housing model in the community whilst supporting the independence and dignity of the householders.

With advances in smart technology and medical care, it is anticipated that people will continue to live longer, active lives in the community. The costs associated with the development of suitable homes and the equipment required to support residents to live at home, or in bespoke small-scale developments, so as to fully participate in their communities, comes at a cost. It is disappointing to note, therefore, that the proposal to allocate a small additional subsidy for this type of provision was not brought forward into the increased per-unit grant award.

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?

Whilst there is cross-sector support for the delivery of 50,000 new affordable homes in the next five years, it is essential that the barriers to development that have been identified and articulated by practitioners over the years are tackled across their component parts so that practitioners may effectively inter-link and co-produce the delivery of the Scottish Government’s articulated aspiration across the industry, as Tom Barclay suggests, rather than continue to operate in a disjointed fashion.