Local Government and Communities Committee

Scrutiny of the Draft Budget 2017-18

Submission from South Lanarkshire Council

Local Government budget

As part of the UK-wide squeeze on public sector budgets, the Scottish Local Government budget has fallen significantly in real terms in recent years. Since its peak in 2009-10, total like for like local government funding from the Scottish Government has fallen by around 10% in real terms. See the SPICe Briefing on historic local government finance for more information and context. Local authorities have therefore been making savings for many years. The future shape of the local government settlement is unclear, but local authorities are preparing for further real terms reductions in their resources.

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

Response:

Local Government has unfortunately had to manage reducing levels of grant both in real terms and in cash terms in recent years. This is in an environment where Councils also face increasing costs from Pay agreements, increased costs of providing pensions through removal of NI benefits, introduction of the Apprentice Levy, demographic movement and increasing Living Wage levels. As a Council, the attempt has always been to manage cuts in grant through more efficient practices, and minimising the impact directly on local services, however, this level of efficiencies is challenging to sustain. As Council grants are cut, and other services protected (including the requirement to maintain teacher numbers), the areas of councils budgets where reductions can be made grows ever smaller. The ability to limit real impact on local services reduces every year.

As part of a long running project looking at the impact of local government budget reductions across the UK, the Joseph Rowntree Foundation and Glasgow University have developed a 'social impact tool'. This tool allows councils to examine their budget choices and look at whether their savings are weighted more on those services that are "pro-rich" or "pro-poor".

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.

Response:

The Council was one of those involved in an earlier Joseph Rowntree Foundation study on councils and their ability to assess social and community risks arising from spending decisions. This suggested the development of a
Social Risk Impact Assessment framework for councils to assess the impact of cuts on vulnerable and disadvantaged groups which has been developed further as a Social Impact Tool.

The Council would agree with the view that the need to find short term savings to deliver balanced budgets is promoting the need to develop new approaches and preventative action. The challenge is to delivery cuts and the reform agenda through transformation. There will be concern over the continued ability of the Council to continue to deliver efficiency approaches for future years, as the council seeks to reduce cost whilst maintaining service levels.

A specific concern relates to the announcement that the Scottish Government will bring into effect the Socio-Economic duty under the Equalities Act. This could require in law that all public bodies to ensure that all policies and decisions are evaluated to assess whether they are addressing inequalities of outcomes caused by social and economic disadvantages. The Council would urge that in doing this, the Scottish Government listens to the views of the Independent Advisory on Poverty & Inequality who has stated that critical to the duty’s success in practice will be buy-in from public bodies and from people on low incomes and that guidance on how the duty should ultimately be framed is developed collaboratively.

The Accounts Commission reported that unallocated General Fund Reserves rose 18.5% during 2014/15. The Accounts Commission reported that there is wide variation in the level of reserves that councils hold and the levels of unallocated General Funds but noted that “finance directors tell us that they are being careful to save whenever opportunities arise, in anticipation of further funding reductions.” This reflects commentary elsewhere that (such as from the LGiU policy briefing “Financial Outlook for Scottish Councils”) that job losses may be being offset through the use of one-off savings and using General Fund Balances in order to protect local services and jobs in the short term.

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 being used to offset savings in the short to medium term.

Response:

The council maintains an uncommitted general fund balance to hedge against unforeseen events, and this balance has not increased substantially in recent years. The use of reserves to manage budget pressures does not represent long term solutions for savings.

The Council has chosen to use in year underspends to set aside in a committed reserve to help manage savings targets for a short period.
The aim for S95 officers is to maintain an appropriate level of General fund reserve, in an environment of grant cuts. Depleting these reserves to manage pressures in the short term could not be sustained.

Finally, the Scottish Government has committed to consult on and introduce, in future, a Bill “that will decentralise local authority functions, budget and democratic oversight to local communities”. The Committee noted that the Finance Committee reported in its report on the draft budget 2016-17, that different figures for the revenue settlement to local government were arrived at in terms of the reduction in funding for Local authorities. These differing figures depended upon whether the comparisons were made between combined revenue and general resource grant (GRG) (5.2% reduction) or cash reductions compared with estimated total expenditure (2% reduction).

Other funding such as whether the £250 million provided for health and social care integration (which was provided via health authorities) should also be considered as local government funding has also been highlighted.

**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?**

Response:

Whichever way the Scottish Government choose to define funding for local government does not change the pressures faced in delivering services in an environment of reducing funding.

What is a concern is a scenario where these decentralised functions (such as social care and education) receive protection from Scottish Government at the expense of the remaining local government functions. These functions would then be required to make larger cuts, for services, some of which we are obliged to provide through statute. Funds should be provided to Local Authorities, for local decision making. This diminution of local decision making by Local Authorities disperses the ability to work together with partners, and work towards achieving the best outcomes across all services.

Specifically, on the £250m health and social care funding – the reality of the funding was that it was partly for Local Government use (with restrictions on ensuring that Low Pay commitments were made), and partly for Integration Joint Boards to progress additionality (covering Health and Social Care). It is suggested that if money is for the use of Local Government, then it should be directly allocated to Local Government and any restrictions should be limited.

**Housing Supply Budget**

The housing supply budget for 2016/17 was round £690 million of which the majority £572 (83%) was for spending on the Affordable Housing Supply Programme (AHSP) with the remaining £117m spent on other housing initiatives (mainly the Help to Buy
(Scotland) Affordable New Build Scheme). Of this £572 million, £406 million is provided for local grant programmes with the remaining £166 million is for the centrally managed programmes. See the SPICe Briefing 16/49 Housing Supply Budget for further information. The Scottish Government website also contains information about the AHSP at this link.

Over the next five years the Scottish Government's affordable housing supply targets have increased from 35,000 over the preceding 5 years to delivery of at least 50,000 units (of which 35,000 will be social rent) for the period 1 April 2016 - 31 March 2021.

In his response to the Committee the Minister for Local Government and Housing explained that “The Scottish Government will work with the sector to drive the best value from the Affordable Housing Supply Programme and promote below grant subsidy benchmark delivery wherever possible through e.g. innovative funding packages and procurement and collaboration. This will help achieve cost efficiencies in delivering the 50,000 affordable homes target over the next five years.”

We therefore invite views on the value for money and the effectiveness of these centrally managed funds (£117 million for other initiatives and £166 million for Affordable Housing Supply) in supporting housing supply. Centrally managed funds include the Help to Buy scheme, Open Market Shared Equity, Home Ownership Support Fund and other innovations such as the Local Affordable Rented Trust.

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?

Response:

The Council welcomes the focus placed on increasing the overall supply of affordable homes and in particular the financial commitment made over the next five years to assist with the delivery. The commitment to investment must however be aligned with robust and credible assessments of local housing needs and demand (HNDA).

In relation to the centrally managed funding streams, the Council would make a few observations and comments which link to some of the other questions highlighted below: Overall the balance for the £690m funding 2016/17; 59% (£406m) is managed locally, 41% (£284m) is managed centrally. There is a need to consider and articulate how the funding held centrally contributes to the delivery of local as well as national outcomes.

Support to Private sector

It is recognised that the wider objectives for the economy derived from increased output from house building; however, the level of funding directed towards assisting the private sector to increase the housing supply under the affordable housing 'badge' is significant.
In the case of most authorities, the real issue continues to be delivering programmes of affordable social rented housing that is remotely close to the assessed level of need, evidenced through HNDA and Local Housing Strategy (LHS) work, which highlights continued pressure from housing waiting lists and homeless households, to meet pressing housing needs.

**Subsidised purchase schemes**

This type of scheme can potentially address housing needs through facilitating movement within the housing system, though this would require further detail and explanation as to how this happens, backed up by available data. The Open Market Shared Equity Scheme (OMSE) Local Maximum Price Ceilings set defined purchase price thresholds by property size and area and more closely reflect to lower quartile market prices. Therefore, the relationship between OMSE and assisting households that require assistance to meet their needs in the market place that might otherwise put pressure on Housing lists is clearer.

However, the extent to which the new supply through ‘Help to Buy’, which provides equity assistance for properties at over or around £200,000, would meet any affordability test would have to be questioned.

Over half (56.4%) of all centrally managed funding is allocated towards home purchase schemes rather than renting. This constitutes almost a quarter of total funding (23.2% of the 2016/17 budget, £160m of £690m) – Help to Buy (£80m) and Open Market Shared Equity (£80m). It is unclear the extent to which it can be clearly demonstrated that this is meeting an affordable housing need. SPICE figures show the average purchase price for Help To Buy is £189k. Applying the default affordability threshold used in the Scottish Government’s Centre for Housing Market Analysis Housing Need and Demand Assessment Toolkit, a household would need to have an annual income of £47,250. This can be contrasted to the Annual Survey of Hours and Earnings (ASHE) 2015 estimates which indicate average earnings for people in South Lanarkshire to be around £21-22,000 per year.

**Other centrally held funding**

The Council recognises that a number of other schemes which aim to lever additional funding for the delivery of housing or bring innovation to help address the challenge have to be welcomed. Again some of these schemes will meet a particular level of demand (mid-market, lower borrowing costs etc.) but may also be a function of the underlying problems in the wider or local housing market and access to mortgage funding, which continues to be the biggest obstacle to growth in the sector.

While it can be more efficient and appropriate to manage and distribute funding centrally, there are however, some elements of the budget which potentially would be better served as local funding streams which could be drawn from. The Council has a good solid working relationship with More Homes Scotland locally and in some instances it would make better sense to discuss access to
funding solutions for locally identified challenges and proposals. Recently for example, relatively small amounts of funding have been made available, with no certainty of future rounds for tackling town centre / long term empty homes issues.

The Council, in common with many other authorities, through their LHS, have identified the need for a coherent approach to tackling decline within town centres and long term empty properties – periodic challenge funding does not seem to reflect the complexity, scale or nature of the challenge. In addition, considerable effort, often wasteful has to go into preparing bids, deal with a time lag in appraisal and then be expected to deliver a complex project in a short period of time to achieve spend. Funding to assist feasibility schemes would be helpful rather than these being ‘at risk’ and only recovered if successful.

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.)

Response:

As noted above, a significant amount of the overall housing budget is allocated to delivery of the non-social rented ‘affordable’ housing. As long as funding is available for other forms of supply, they will have the effect of changing the nature and way in which affordable housing supply outputs are delivered and recorded.

Given the focus upon the affordability of rent within the social rented sector a similar consideration of affordability of mid / full market rented properties would be appropriate.

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)?

Response:

Role of Subsidy for Mid-market Rents

The greatest pressure within the Council’s housing market area is on the social rented stock. The Private Rented Sector (PRS), in common with many other areas has grown rapidly over the last 10 years and represents more than double the registered social landlord (RSL) stock. However, out with the major cities, this PRS growth appears concentrated not in high value commercial properties, but in former local authority / development corporation / Scottish Homes properties which were sold under Right to Buy.

These properties are generally below average value and require investment to improve conditions and energy efficiency. For the most part, owners are single property landlords, often unintended. Information regarding segmentation of the PRS is patchy, but available studies have indicated a narrow scope for mid-
market, targeted towards particular income band households (see North Star Consulting study for East Dunbartonshire Council). Only in some areas is there a potential role for a ‘mid-market’ option, albeit for those schemes already completed, rents tend to be at the Local Housing Allowance (LHA) rate and similar to full market private rented stock, but generally popular because it is new and of a higher quality standard.

**Local Assessment of Housing Need and Demand**

Setting national centrally directed targets for increasing subsidised market rental supply needs to be more closely aligned to assessment of local housing systems, which are set out in the LHS. In many areas, the key strategic risk is that this market intervention will cause detriment to the existing lower value PRS sector that has grown rapidly in recent years, further limiting the potential for much needed investment.

Whilst there is clearly demand for renting outwith the social rented sector, one of the key issues for tenants in either mid-market or PRS rented homes is the extent to which this would be their tenure of choice. Given the challenges with accessing mortgage finance and significant deposits to access owner occupation, saving whilst paying high rent levels is a barrier and perhaps one model might be for rents to become part of an increasing stepped equity share and ultimate ownership of mid-market homes.

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.

**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?**

Response:

The Council works well with its delivery partners and the Scottish Government locally to use the Strategic Housing Investment Plan (SHIP) and Strategic Local planning Agreements (SLPA) process to plan and manage the new build affordable housing programme. Resource Planning Assumptions (RPAs) have been outlined over a longer term planning period with minimum levels for future
years. The intention to extend the planning horizon of RPAs to five years in line with the SHIP is welcomed. Whilst the focus is on a minimum RPA for planning, subject to annual confirmation of the full budget, it would be helpful if there were more certainty of a higher percentage RPA for a longer period of time. This would assist with programme delivery in that there would be greater certainty about the annual amount available. Given the commitment is to deliver 35,000 new affordable rented homes over the duration of the parliament, the likely total level of grant needed to support this annually will be closer to the year one figures in any case.

It is recognised that local allocations are likely to vary in line with need and capacity to deliver, but this could help overall planning of the programmed outputs by allowing earlier virement between local and national budgets.

From January 2016, affordable housing grant subsidies 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.

**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.**

**Response:**

The flexibility in subsidy levels is welcomed. One of the key aspects of social housing development is that many of the development sites which are ultimately developed can be more expensive to develop as brownfield sites or indeed as part of wider regeneration programmes with other costs. Access to sites on the open market is limited and there continues to be significant cost even when land becomes available through section 75 agreements. The pace of developing section 75 sites moreover is often determined by the pace of any private development and therefore difficult to programme. There can be competing pressures for land supply, with local authorities and private sector completing for land.

We also feel that it is important that the focus upon achievement of the national target does not entail any overly crude comparison of unit costs. Building housing to varying needs standards which will meet the longer term needs of the tenants may be more expensive at the outset but will prove cost effective in the context of providing life time homes.

In relation to housing to meet particular needs and for older people is often a challenge because of the changing nature of and certainty over revenue funding for support and this will continue to present challenges for providers. In this context, there is an opportunity for a clearer level of focus on housing issues with Health and Social Care Integration. Closer joint working locally to
bring forward a shared vision of the housing contribution will work if matched by close joint working within ministerial portfolios.

One of the challenges many councils face is that the growing demand for care and support as well as access to specialist or sheltered housing comes from owner occupiers who are seeking access to social rented stock. If models of shared equity for older people’s housing were available at a market level which enabled use of the value of the existing home to access appropriate housing, it would help meet a demand whilst improving the options open to older people for appropriate housing.

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?

Response:

The outcomes are ambitious and the commitment to funding is welcomed. The Council is very much aware however that whilst its biggest requirement is for new affordable social rented homes, there remain challenges in maximising potential outputs. The shrinkage in the development capacity for a number of RSLs following the crash in 2008 and subsequent reduction in grant has been compounded by considerations of the risks to business plans from welfare reform changes.