Finance Committee

Demographic Change and Ageing Population

Written submission by COSLA in advance of giving oral evidence to the Committee

Introduction
1. COSLA welcomes the opportunity for its Spokesperson on Resources and Capacity and its Spokesperson on Health and Well Being to provide oral evidence to the Finance Committee's inquiry into demographic change and the ageing population. In support of giving oral evidence, and as requested, COSLA submits this written submission. Planning for the impact of demographic change has been the focus of considerable modelling, analysis and policy development work over the last decade. Local Government for its part has long recognised the challenge presented by an ageing population and has been vocal in ensuring this issue is at the top of the agenda.

What our submission seeks to do
2. Our previous written submission sought to do two things. Firstly to highlight for the Committee what local government has done to proactively respond to the demographic challenge, and secondly to seek the Committee's support for stimulating the sort of wider debate we need about public sector services and how they need to be funded and delivered in the future.

3. COSLA therefore welcomes this opportunity to submit oral evidence to help continue to highlight what local government is doing and was also pleased to receive the Committee's 2nd Report.

4. Our key message in our previous written submission was that even with the actions taken by local government and our partners, there is a question as to whether any of this goes far enough. As we pointed out in the submission local government has long known about this challenge, however big questions remain to be fully debated about how increasingly scarce resources should be deployed into the future to improve outcomes for all citizens, in light of demographic change and an ageing population.

5. COSLA provides in this report an update to the issues highlighted in the previous written submission, again in sections covering the key areas of interest, namely health and social care, housing and pensions and labour force and planning to mitigate the impact of demographic change. This is intended to support our key messages about the scale of impact of demographic change and what we believe needs to be done to address the challenge.

6. To reiterate an important point, the Committee should also be aware that in areas of high deprivation the impact of demographic change is exacerbated as life expectancy is lower and social care needs are higher from a younger age. In other words, areas with significant deprivation often find that citizens have to endure longer periods of ill-health.

Demographic change – the financial challenge
7. The modelling work previously undertaken and detailed in our first written submission is still valid. The questions raised by the Committee at paragraphs 60 and 61 of its 2nd Report with regard the funding gap and ability of the shift towards preventative spending to produce sufficient savings are the same questions that COSLA is asking and seeking answers to. COSLA is of the view that preventative approaches must be
the focus for future financial planning. The risk is that shorter term issues (either practical or political) becomes a distraction and the Scottish Government only approaches the prevention agenda in a limited and shorter term way. COSLA is calling for a fundamental discussion about how the funding gap can be addressed.

8. The fundamental questions posed by COSLA in its first written submission about the willingness to look seriously at the capacity of the public sector to provide services universally, that communities have responsibility to play their part and that transformational change is needed to take demand out of the system are still valid and need addressing urgently.

9. The Improvement Service in its review of the Autumn Statement has advised Councils to assume real reductions of 3% per annum at least up until 2017/18, as has been the case already. This will put Councils under increasingly extreme financial pressure over the coming years.

10. Coupled with this are financial pressures which are arising from welfare reform, which in turn will contribute to future pressure as a result of demographic change and an ageing population. Welfare reform is likely to be another driver towards an older but poorer population with increasing needs on services.

11. As previously highlighted, local government is not sitting back but is pushing forward with a wide range of actions to try to close the gap. These include re-designing services and modernising working practices, driving through efficiencies and engaging in sensibly planned shared service arrangements where appropriate.

Key areas of interest to the Committee
12. The rest of this submission provides updates on key areas of interest raised by the Committee with regard to the impact of demographic change on the provision of health and social care, housing and pensions and the labour force. The work being undertaken by local authorities to plan to mitigate the budgetary impacts is drawn out under each of these areas.

13. The sections of this part of the submission are set out as follows:

   a. Section A: older people health and social care
   b. Section B: demographic change and labour force
   c. Section C: demographic change and pensions
   d. Section D: older people and housing

Section A: demographic change, older people health and social care
Main policy responses
14. The Committee notes that the Scottish Government’s two main policy responses to the challenges of an ageing population and reduced public have been health and social care integration and reshaping care for older people. Scottish Local Government has engaged fully in the development of these initiatives and remains committed to both endeavours. Clearly if we are to meet rising demand within the context of reduced funding, then we must provide care in the most cost-effective way possible, which means reducing unplanned admissions and delayed discharges to release resources inappropriately ‘locked up’ in acute sector provision.

Healthy Life Expectancy and health inequalities
15. However, we should not lose sight of the more specific drivers of financial pressure within the older population, and what this means for our efforts across a wider range of policy areas. Although increases in life expectancy lead to a shift in the balance between those potentially paying in to the public purse, and those who are drawing resource down, what has a far bigger impact is whether those increases in life expectancy are in healthy life expectancy. The Committee’s report acknowledges this distinction and calls for better research and monitoring in relation to health inequalities, including the development of national indicators for health inequalities. COSLA welcomes an increased focus on health inequalities – one of the longer-term levers we can use to take demand out of the system is to address the inequalities in healthy life expectancy that exist across Scotland. To this end, we would want to highlight the continued need for focused and community-led action at the neighbourhood level – health inequalities are strongly linked to deprivation which often exists in small pockets, varying widely between council areas, and within council areas down to neighbourhood level. We therefore need to ensure that public service reform and forthcoming legislative agendas around health and social care integration, place public health planning at the heart of community planning and health and social care partnerships.

16. COSLA is a key member of the Joint Ministerial Task Force on Health Inequalities and will present a number of recommendations to the Task Force at its next meeting on 13th March 2013. These will include measures designed to develop analytical capacity and support the right interventions, and will specifically ask the Task Force to explore whether the forthcoming legislative agenda around health and social care integration could enshrine a more prominent role for public health planning in partnerships’ work to tackle health inequalities. This could include (but need not be limited to):

- development of population needs / public health assessments in order to provide the evidence base for strategic commissioning – including local health improvement and prevention activity;
- development of a strategic commissioning plan – along with relevant partners in the NHS, third and independent sectors for specified population groups; and
- development of community engagement structures, community capacity and assets base locality planning.

17. We note that, in its report, the Committee asks the Scottish Government to acknowledge that funding has not increased in line with demographic change. COSLA has previously made this point in submissions to the Independent Budget Review, Christie Commission and to this Committee and so we welcome this call. However we would also highlight two further points in relation to the scope and the scale of the problem, and what that means for the response that is required.

18. Firstly, in terms of the scope of the problem, it is important to note that an ageing population creates greater financial pressure on social care than on health services, and that pressure arises from wider population groups also. As people live longer, the most common need is not for acute care, but rather for care related to long term conditions such as dementia. This comes with a consequent greater projected increase pressure on primary and community care budgets, than on those for acute services. Spending figures from the Scottish Government, projected to 2030, show the funding required for residential and home care for adults is set to increase at around

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three times the rate anticipated for NHS services. This is in line with similar conclusions drawn by the Dilnot Commission in England, who found that social care requires a larger increase (in percentage terms) than the increases being provided to the NHS. Furthermore, these projections are based on incomplete information for the full range of groups requiring care. For example, we know that people with learning disabilities are living longer. While this is to be celebrated as partially attributable to improved health and social care, it means that there is increased demand from this group as individuals go on to develop conditions associated with older age.

19. Moreover, not all projected increases in demand are connected to increased life expectancy. As the impact of job losses and the financial, social and emotional pressures this creates coincide with reductions in low-level support services, it becomes more likely that problems will escalate leading to increased demand for mental health services, including addiction services.

20. Taken together, these issues amount to an increase in the scale of the problem. So while Reshaping Care for Older People concluded that if we fail to change our service models “we will require an estimated annual increase in investment in health and social care services for older people of £1.1 billion by 2016 and £3.5 billion by 2031”, this does not represent the full picture.

21. COSLA is currently working with the Scottish Government and other partners to refine our understanding of the size of the funding gap for health and social care services into the future. However, what we do know is that there is a clear evidence base which demonstrates the impact of preventative spending and earlier intervention on reducing demand for acute services and tackling health inequalities. This relates to both preventative care and earlier intervention for older people, but also to tackling inequalities and improving outcomes in the earliest years of life, in recognition of the effect this has on negative social outcomes in later life.

Preventative spending and earlier intervention

22. COSLA has consistently highlighted the need to look ‘upstream’ when managing investment across the system – only when we consider what is causing increased demand, and what is the most cost-effective way to reduce that demand, can we make progress towards sustainable services. This requires action across the whole population, from infants to older people, and also requires action to reduce inequalities which are inextricably linked with poor economic, health and social outcomes. A recent

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report from the Centre for Social Justice highlighted these points when it presented evidence:

1. A commitment to prevention;
2. Priority focus on the early years;
3. Continuing early intervention in later years;
4. A multi-agency systems approach;
5. High quality of workforce;
6. Investment in programmes that work.

23. Scottish local authorities are continuing to work with partners to tackle inequalities and ensure our children get the best start in life, and national frameworks, such as Equally Well, continue to inform local work to improve outcomes, centred on Getting It Right for Every Child. More specific points in relation to children are made in the relevant sections (above/below?). Developments designed to address the 5 other points above, helping to shift spending on services for older people towards prevention and earlier intervention, include the Integrated Resource Framework, the Long Term Conditions Action Plan, the Rehabilitation Framework, Self-Directed Support, and the Local Housing Strategy Guidance, along with service redesign initiatives such as re-ablement, telecare and intermediate care.

24. While these services will help reduce demand in the future (often termed ‘failure demand’ due to its preventable nature) it is widely recognised that it takes time for investment in prevention and early intervention to bear fruit. In the interim, there is a requirement for continued funding of acute and other provision to meet this ‘failure demand’, resulting in dual costs until the point at which demand starts to drop out of the system. A ‘Change Fund’ was therefore established to provide bridging finance to facilitate shifts in the balance of care from institutional to primary and community settings, and to increase support to carers. £70 million was allocated in 2011/12 and a further £80 million in 2012/13, with a requirement to invest 20% of the second year allocation in support for carers. In fact, the latest information from the Joint Improvement Team shows that this has been significantly exceeded, with almost 44% of the initial central allocation being invested for carers.

25. However the Change Fund is not an end in itself. It is an input intended to enable partnerships to increase the pace of their local progress in shifting the balance of care towards prevention and early intervention, to enable older people to remain independent and live at home or in a community setting. Partnerships aim to incrementally increase the proportion of funding they allocate to preventative, anticipatory and proactive care and support at home, in order to ultimately take demand out of the system.

26. However, we need to be clear about the scale of that task – improved outcomes and reductions in demand don’t appear straight away; in the meantime, we need to continue to meet existing ‘failure demand’. Furthermore, although preventative spending can ultimately generate savings, our ageing population and the increases in demand this will bring over the coming decades, mean that any savings will be absorbed. The net effect of this is that, without increases public finance over the coming years, a significant funding gap will emerge.

Potential solutions
27. Clearly these are complex issues that require a range of short, medium and long-term actions by multiple partners. However, most of those actions, including those discussed above, fall into one of three categories:

- deliver the same level of public services to increasing numbers with reducing resources by redesigning services to be more efficient (including by taking demand out of the system through earlier intervention)
- accept a reduced level of public services
- increase the overall level of funding available through taxation or some other income generating solution

28. It is against this backdrop that we must consider fundamental questions about the future funding of social care, about universal benefits, and about the balance of responsibility for care between the state and the individual.

Integration and shifting the balance of care

29. Much has been written about the twin problems of unplanned admissions and delayed discharge. Despite recent improvements in delayed discharge, there remains much to be done in tackling the avoidable use of acute sector resource where alternative provision in the community would be both more efficient and often the preference of the individual concerned. COSLA has made extensive comment on integration, both in our response to the Scottish Government’s consultation and in our previous submission to the Committee, and so will not repeat that detail here. However there are three key points of sufficient importance to warrant highlighting here:

- Firstly, despite much attention to the need to shift the balance of care, large amounts of resource are still spent on emergency admissions and extended stays where community-based alternatives could be developed. Integration therefore must function to shift that resource from acute to primary and community care.
- Secondly, whilst important, emergency admissions and delayed discharges are not the only, or even the most important, problem which integration needs to address. If we are to meet the challenges of an ageing population, we have to tackle health inequalities and improve healthy life expectancy over the longer term. We therefore need a wider policy focus, as highlighted earlier.
- Finally, no matter how successful the integration project, we still face fundamental challenges in terms of how we pay for social care in to the future. Solutions will require us to advance a mature debate about issues such as universal benefits and the balance between the state and the individual in paying for care.

The future of funding for social care

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30. Reviews by both Audit Scotland and Lord Sutherland have questioned the sustainability of free personal care⁹; more recently, the Dilnot Commission and the UK Government’s response to its findings have advanced a fundamental debate about the funding of social care in to the future.

31. It is worth noting that Dilnot’s recommendations are incompatible with free personal care insofar as they set out to do two different things. Free personal care sets out a level of entitlement - personal care - for which people won’t be charged, with charges then being incurred for service provision beyond that scope; whereas Dilnot sets out a level below which people will be charged, with no charges for provision beyond that cap. The cap also only applies to ‘substantial care’ requirements, and not to hotel costs or basic personal care, which would be payable by the individual from day one until death.

32. Questions of compatibility aside, what is clear is that we need a fundamental review of how social care is placed on a more sustainable footing in to the future, and that this needs to include a debate about the balance of responsibility between the individual and the state.

Section B: demographic change and labour force
33. Local government is one of Scotland’s largest employers, employing over 280,000 people. With around £8 billion spent on staff costs, councils know that their workforce needs to be properly planned, skilled and rewarded if it is to deliver the best possible outcomes for communities. The local government workforce is very diverse including those who help our children grow and learn, and those who protect our communities and care for the vulnerable and those providing the essential day to day services that allow people to work, live in or visit our communities.

34. Scotland’s councils are operating in a changing environment as they re-orientate towards managing outcomes and expansion of alternative methods of service delivery. In social care for example, greater emphasis on commissioning, partnership working and joint delivery means that councils themselves often do not directly employ large parts of the workforce.

35. These factors, combined with public funding pressures, mean that councils are taking forward a range of activities to re-design their workforces. The challenge they face is not simply to resize the workforce to reflect net resource reductions, it is to rebalance and reprioritise spending towards demand growth and a hard focus on the shape, size and structure of the workforce that is necessary.

36. The impact of demographic change and an ageing population are important factors within this complex mix. Amongst the many challenges, it means that local authorities will have to prepare for an ageing population, plan for large numbers of people to retire over the next few years, and ensure that they attract sufficient young, skilled professionals to the workforce.

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### Modelled estimates for age profile of local government in, Scotland, Q2 2011

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37. In terms of the local government workforce, the highest percentage (42%) of local government employees are in the 35 to 49 age bracket (and therefore likely to be affected by pension reforms with further years of work ahead). 35% of the local government workforce is aged 50 or over and facing the future of retirement in the short to medium term. There are significantly less employees in the younger age brackets in local government with 18% in the age 25-34 group and only 5% in the 16-24 age group. It is worth noting that there is a consistent split in terms of gender with approximately 65% of the workforce noted as female within every age range.

38. The figures for the wider public sector in Scotland are very closely aligned to those of the local government workforce. Again, the largest percentage (44%) is found in the 35-49 age group with the over 50s as the second largest on 33%. 19% of the workforce is found in the 25-34 range with again only 5% in the 16-24 category. And, again, there is a similar gender split of approximately 65% females in each age category.

39. These are difficult challenges, and although the contraction of the wider labour market associated with the economic downturn has to an extent allowed local government to position itself as an employer of choice in the recruitment of new talent, a significant workforce planning challenge has been around the sustainable recruitment, retention and development of skilled personnel to meet demand in some key areas such as social work and teaching, and in some of the more remote communities in Scotland.

40. Work by the Audit Commission suggests that stark figures in relation to English and Welsh local authorities, which have a close correlation to the Scottish experience:

- 87% of councils report difficulties in recruiting and retaining professional staff.
- More than 75% of the 2020 working age population is already over 16.
- Over 70% of the public sector workforce gained their qualifications more than 10 years ago.
- Over 30% of council employees will reach retirement age in the next decade.

41. At the same time, the ability of local authorities to predict future workforce needs has also been made more complex by wider pressures on public finances. Councils have understood that headcount cannot be maintained at historic levels if they are to ensure their workforces are affordable and sustainable for the longer term. They have been realistic about the steps they need to take, and made significant use of early or voluntary retirement schemes to downsize their workforce.
42. Between 2007 and 2011, staffing numbers for headcount and full-time equivalent fell by 4.1 per cent (12,400) to 289,400 and 4 per cent (9,900) to 239,700 respectively. Many have therefore seen considerable reductions in the number of older people within their workforce. These schemes have meant that local government has widely delivered its commitment to avoid compulsory redundancies, but in this context, the challenge has been to ensure that councils have in place the right people with the right skills to meet current and future requirements, particularly as associated freezes on non-essential recruitment have significantly slowed the rate at which younger staff are recruited into the workforce.

43. Further, although councils have long applied a flexible approach to retirement and strived to achieve a diverse workforce profile that reflects the communities they serve, the removal of the Default Retirement Age (DRA) in 2011 has formally given employees more choice about when they retire and made ‘employer-forced’ retirement unlawful. To date there is little evidence that significant volumes of staff are working for longer as a result, or that these changes are restricting younger workers from accessing opportunities. Nevertheless in the medium and longer term, increases in state pension age and uncertainty around the current economic climate make it more likely that employees will want to retire later in the future. This, in turn, may impact upon the likelihood that local government and their partners can use their own positions as key employers to address the rising figure of youth unemployment as part of their priority outcomes.

44. Effective workforce planning is therefore fundamental to councils’ strategic planning process. Where a national approach can add value, this has been put in place, most notably in relation to teaching and social work staff (some 43% of the total workforce). Yet, although there are extensive and varied agencies involved in planning and development activities for local government, there is no evidence that a generic national workforce diagnostic and planning approach for workforce planning across Scottish local government would help prepare for these challenges.

45. Moreover, as the size, nature and timing of specific issues are dictated by local demographic profiles and individual councils’ plans and priorities, the associated responses to these are best determined at local level. Although national resources, tools and support can ensure that councils have consistent capacity and practical solutions they as a necessity demand work locally to understand workforce intelligence clearly and manage resources accordingly.

46. Councils in Scotland are becoming more pro-active in terms of focusing on workforce planning to ensure the right people are in place to meet future service needs relating to the challenges of public sector reform. However, it is clear that reductions in the size of the workforce will have an impact on services. In addition, there are numerous long term large scale and complex issues to be addressed. Therefore, the challenge is not simply to ensure that the local government workforce is effectively and fairly managed, rewarded and motivated, but to place the workforce at the heart of efforts.

Section C: demographic change and pensions

47. Given that people are traditionally living longer, this in turn means that people will be receiving any pension entitlement for longer, both from their state pension or any private pension which an individual has accrued. The impact of growing life expectancy will mean that there is a need to ensure that all pension schemes are appropriately resourced in order to meet these increased pensions liabilities.
48. The Committee will be aware that public sector pensions are funded from contributions which are received from both employers and employees in order to pay for on-going pension liabilities. In addition, the LGPS is a funded scheme, and as such it uses the total contributions received from employers and employees to invest in assets in order to meet the long term cost of pensions.

49. Public sector pension schemes are subject to triennial actuarial valuations where the main purpose is to make a financial assessment around the current state of the public sector pension schemes, and to make recommendations as to the future contribution rates which are required in order to meet the long term funding requirements of the scheme. These valuations are underpinned by a number of projected actuarial assumptions, including the life expectancy of the membership of the scheme.

50. Unfunded schemes also rely on a discount rate which is set by HM Treasury and is used in addition to the valuations to determine the level of contribution rates which are required in order to meet future pension liabilities. Whilst this has been subject to review, the discount rate is not reviewed on an on-going periodic basis. The impact of longevity assumptions can result in significant increases to required contribution rates, and therefore the Finance Committee may wish to keep a watching brief on future HM Treasury reviews, to ensure that the on-going pensions requirements of the scheme continue to be appropriately reflected.

51. In addition, funded schemes remain subject to market conditions and the extent to which the market conditions are favourable can have a substantial impact on the funds' ability to meet any increased pension's liabilities. By way of example, between 1999 and 2011 the improvement in life expectancy in one of the main LGPS funds in Scotland has increased the pension fund liabilities by around 11%, or £214m across this time period. If the level of investments falls, this will have a substantial impact on the funds' ability to meet the extent of these future longevity projections, and in turn this will impact on the level of contribution rates which are required to meet on-going liabilities.

52. The impact of an ageing population has undoubtedly created challenges in terms of pension provision, and the UK Government has now embarked on a series of reforms in an attempt to address these challenges, including: changes to the amount of state pension individuals receive, an increase to the date at which an individual can receive a state pension, as well as much wider reforms to all of the main public sector pension schemes which are currently provided to the public sector workforce.

53. The Scottish Government has similarly embarked on a series of reforms to all of the main public sector pension schemes in Scotland. Local government remains committed to delivering public sector pension schemes to our workforce which are both affordable and sustainable to scheme members and employers alike. COSLA is working jointly with the Scottish Government and other stakeholders to deliver these reforms, which will be underpinned by work by the Government Actuary’s Department to ensure that the impacts of an ageing membership are taken into account. Local government's workforce can be members of either the Local Government Pension Scheme (LGPS) or the Teachers’ Pension Scheme in Scotland, and although COSLA would not expect all the public pension schemes to be identical, it is of the view that there should be equity across the local government workforce.

54. Employers’ contributions to the LGPS have increased over the last five years, generally to deal with current funding deficits and with the intention to bring the position back to
being fully funded over time. This represents a reversal of the position over the last 25 years during which pension funds have been in surplus which has been used to effectively subsidise employer contributions so that employers have paid less than the long term cost of pension provision. Initial deficits resulted from a number of factors such as improving longevity and poor investment market returns over certain periods, although over the longer period these factors have been less significant. The real problem is with anticipated future investment returns as we have moved into a very low growth environment with recovery anticipated to be slow. Bond yields are at historic lows and so the assumption for future investment returns has reduced significantly meaning that more assets are needed now to ensure sufficient returns and funds to pay pensions in the future.

55. By way of example, the increase to employer contribution rates for the Strathclyde Pension Fund between 2006/07 and 2010/11 was limited to 1% of payroll per annum, and has increased much less since then. The aggregate increase from 2006/07 to 2014/15 will be 4.1% of payroll.

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56. Going forward, the employer rates for the Strathclyde Pension Fund will not change before April 2015, with cash costs expected to decrease as member numbers have fallen and there have been no salary increases. In addition, the new LGPS as a result of the UK level reforms mentioned above will incorporate into all the Pension Funds a cost cap mechanism which will place a ceiling on future increases.

Section D: demographic, older people and housing

57. In its earlier written submission to the Finance Committee, COSLA commented upon the need for a planned and delivered housing supply that responds to people’s needs as they get older. We also emphasised that while councils will be in the position of making small incremental progress towards the housing strategy for older peoples’ goals as resources allow, this progress was very much dependent upon the size of the resource envelop available to local authorities. The level of resources made available from Scottish Government, particularly for affordable housing supply and any resources which might be made available in relation to preventative initiatives such as the Change Funds, are obviously very relevant here but COSLA would also like to emphasise the importance of the total income streams available for housing investment.

58. In this respect, significant additional risk to housing income streams has now arisen as a result of UK Government changes to housing benefit. Changes such as Under
Occupancy measures and Direct Monthly Payments under Universal Credit risk undermining rental income streams while contributing nothing to Scottish housing priorities. There is a danger that, for the next few years, councils and social housing providers will have to give much of their focus to mitigating the impacts of misconceived UK Government welfare changes impact on housing to the detriment of the longer term planning required to address future need. A preventative approach to long term housing supply may be set back as a consequence of competing social policies at the UK level. It is COSLA’s view that effective action to address longer term demographic challenges to housing supply require not just adequate resources but consistent policies at all levels of government.