

**SCOTTISH PARLIAMENT**

**LOCAL GOVERNMENT and REGENERATION COMMITTEE**

**Local Government Finance (Unoccupied Properties etc.) (Scotland) Bill**

**Submission from Shetland Islands Council**

**Submission relates to the consultation in Part 4 of the Bill – Abolition of Housing Support Grants**

Housing Support Grant

Shetland Islands Council has been in receipt of Housing Support Grant due to the historic situation brought about in the 1970's when oil was discovered around the islands leading to the building and commissioning of the Sullom Voe oil terminal. At that time Shetland's population grew by 40%. Over the two decades of the 1970's and 1980's the Shetland Islands Council borrowed approx. £50M on its Housing Revenue Account (HRA). Between 1978 and 2009 the oil terminal has shipped in excess of 1 billion tonnes of crude oil which has contributed massively to the UK and Scottish economies. The debt is oil-related and successive Governments since the 1990's have promised to provide debt commutation, even when the debt was at its peak of £60M in the mid-1990's, but to date no commitment has been honoured.

The Shetland Islands Council's HRA is financially unsustainable without some reduction in the debt it is carrying. The level of historic debt and the Housing Support Grant are inextricably linked.

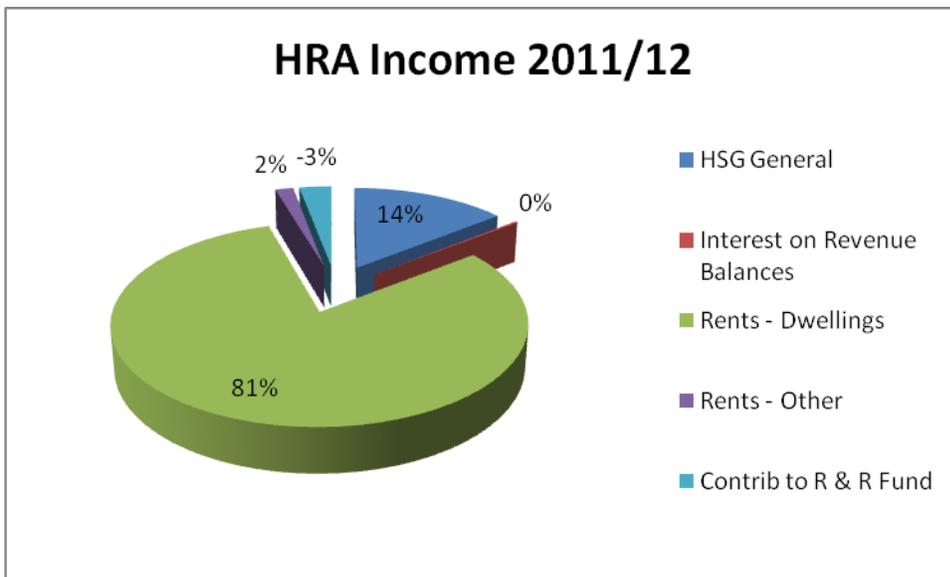
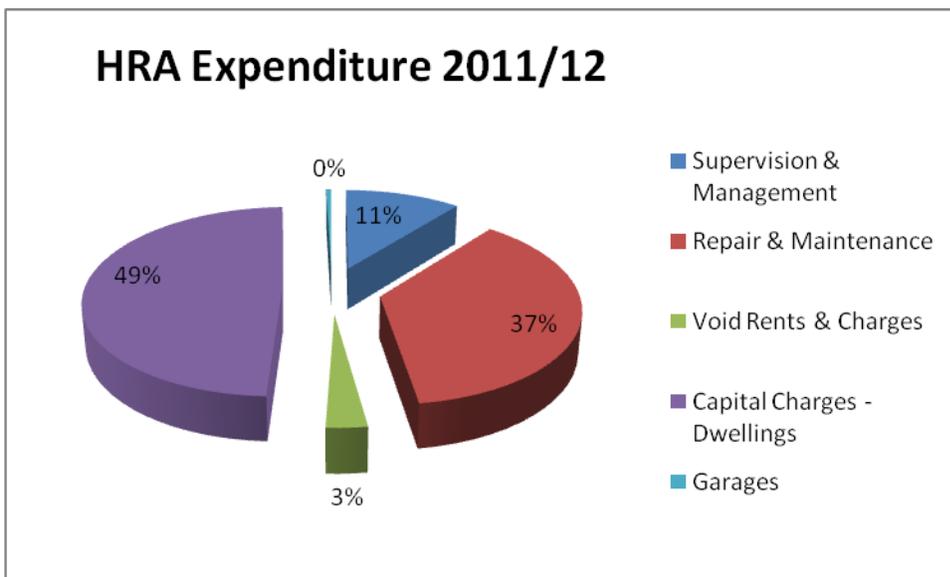
Today the debt stands at approx. £41M (provisional unaudited outturn for 2011/12). This equates to per unit debt of approx. £22-23k, the highest per unit debt in Scotland. This is confirmed by the Scottish Government report on Local Authority Housing Income and Expenditure 1997/98 – 2011/12, published in September 2011 [1], Section 11, which reports that 'Shetland continues to have the highest amount of debt - £28,234 per house at 31 March 2012.'

The report goes on to state that 'Part of the increase in debt per property relates to increased borrowing by councils to meet capital costs of new build housing and improvements to existing houses and reductions in receipts from the sale of council houses.'

[1. [www.scotland.gov.uk/Publications/2011/09/27083556/11](http://www.scotland.gov.uk/Publications/2011/09/27083556/11)]

The important difference is that other local authorities have been encouraged and have been able to borrow to meet their *current* investment needs as they have not been in the same position of having the level of historic debt which is constraining Shetland Islands Council’s ability to invest and leaving the council with an HRA which is effectively bankrupt.

Currently Shetland Islands Council’s debt servicing and repayments account for 49% of the expenditure on the account:



Whilst the table on page 2 shows that income from rents accounts for 81% of the HRA income and Housing Support Grant 14%, this has shifted in balance substantially over recent years.

	2005/06	2010/11	2011/12
% income from rents	56	76	81
% income from HSG	30	17	14

The amount of Housing Support Grant has substantially reduced over time mainly as the overall amount of outstanding debt has reduced.

2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
£1.99M	£1.8M	£1.6M	£1.4M	£1.2M	£0.99M	£0.76M

The Council's response to the earlier consultation stage of the Bill was that it would only accept the abolition of Housing Support Grant if suitable transitional arrangements could be provided. To date no details have been provided of what transitional arrangements are to be offered.

The housing debt and the Housing Support Grant are inextricably linked and one cannot be solved in isolation of the other. In the papers to the Parliamentary Finance Committee it was suggested that the council should look to resolve the debt issue from its own reserves. The council's Executive Manager – Finance has provided additional detail on the level of reserves, showing in detail the breakdown of existing reserves across funds. This shows that existing reserves are either committed for other purposes or are held by funds which cannot be applied to the HRA by statute.

That would then leave the council's 1800 tenants to shoulder the full debt burden of circa £41M. The removal of the 2012/13 Housing Support Grant would equate to either a weekly rent increase of £8.13 (13%) or a reduction in the investment of the housing stock of £760k. With commitments in relation to achieving the Scottish Housing Quality Standard and rents already second highest in Scotland the sustainability of the HRA is questionable.

In addition it should be noted that, through efficient management of the HRA and the benefit of recent low interest rates, the council has reduced the debt from £60M to £40M over a fifteen year period. This has been assisted by the application of Housing Support Grant over time. Without some assistance, either transitional or ongoing, it is not possible for the HRA to continue to manage the debt downwards. It should also be

noted that at current debt level an increase of 1% in interest rates would cost the HRA £450k, the equivalent of £4.80 per week on rents.

Shetland Islands Council is committed to providing a good service to its tenants and to respond positively to housing need in the area. The council is also committed to positively pursuing government incentives and initiatives on investment in stock quality (SHQS), national target for removal of priority need for Homelessness and to address the future supply of housing. With a waiting list regularly fluctuating between 800-1000 applicants and approx. 260 homeless presentations there is considerable pressure on the housing service. There are also additional pressures, costs and constraints in operating a housing service in a remote, island community.

In order to plan effectively for the future, the council has in place a robust and credible Housing Need and Demand Assessment, an assessed and accepted Local Housing Strategy (2011-2016) [2] and has adopted a formal business plan approach to the future financial sustainability of the HRA.

The withdrawal of Housing Support Grant (and the absence of any detail of transitional arrangements) combined with the history of our debt puts the council in a position where it has an historic debt burden falling directly on 1800 current tenants, with:

- No scope to meet further investment in existing stock;
- No scope to provide further new build to meet current overwhelming demand;
- No option but to place excessive rent increases or investment reductions on tenants

Whilst it may appear an inequality that the Shetland Islands Council is the only local authority to still receive Housing Support Grant, its abolition without addressing the historic debt would lead to a situation that would potentially create much greater inequalities for existing and potential future tenants of the council.

[2 [www.shetland.gov.uk/lhs/default.asp](http://www.shetland.gov.uk/lhs/default.asp) ]