Overview and Scrutiny Committee

SECOND SUPPLEMENTAL AGENDA

DATE: **Wednesday 14 November 2012**

AGENDA - PART I

9. STANDING SCRUTINY REVIEW OF THE BUDGET – HOUSING REVENUE ACCOUNT REPORT (Pages 1 - 18)

Report of the Divisional Director of Strategic Commissioning

AGENDA - PART II

Nil

Note: In accordance with the Local Government (Access to Information) Act 1985, the following agenda item has been admitted late to the agenda by virtue of the special circumstances and urgency detailed below:-

Agenda item	Special Circumstances/Grounds for Urgency
9. Standing Scrutiny Review of the Budget – Housing Revenue Account report	Members are requested to consider the report as a matter of urgency, which was not circulated with the main agenda due to obtaining the necessary clearances, in order that any reference arising from the discussion may be forwarded on to Cabinet for consideration at its meeting in December when it will also be considering the housing policy report.

Harrow COUNCIL
LONDON

REPORT FOR: **OVERVIEW AND SCRUTINY COMMITTEE**

Date of Meeting:	14th November 2012
Subject:	Standing Scrutiny Review of the Budget – Housing Revenue Account Report
Responsible Officer:	Alex Dewsnap, Divisional Director, Strategic Commissioning
Scrutiny Lead Member area:	Cllr Susan Anderson, Environment and Enterprise Performance Lead Member Cllr Stephen Wright, Environment and Enterprise Policy Lead Member
Exempt:	No
Enclosures:	Report from the Standing Scrutiny Review of the Budget

Section 1 – Summary and Recommendations

Attached to this report is the report from the Standing Scrutiny Review of the Budget which has considered Housing Revenue Account self financing arrangements

Recommendations:

Councillors are recommended to:

I. Consider the report from the standing scrutiny review
II. Refer the report and its recommendations to the December meeting of Cabinet

Section 2 – Report

Introductory paragraph

The Standing Scrutiny Review of the Budget has undertaken a number of investigations of the implications of financial policy change on the council. One of these investigations has been the self-financing of the Housing Revenue Account. The group met with officers from the council to discuss proposals on a number of occasions between January and October 2012. The attached report represents the findings of this piece of work.

Financial Implications

There are no financial implications associated with this report.

Performance Issues

There are no performance issues associated with this report.

Environmental Impact

There is no environmental impact associated with this report.

Risk Management Implications

There are no risk management implications associated with this report.

Equalities implications

There are no equalities implications associated with this report and no equalities impact assessment has been undertaken

Corporate Priorities

Section 3 - Statutory Officer Clearance

Not required for this report.

Section 4 - Contact Details and Background Papers

Contact:

Lynne Margetts
Service Manager Scrutiny
020 8420 9387

Background Papers:

None

November 2012

Overview and Scrutiny Committee

Standing Scrutiny Review of the Budget
Report on the Self Financing of the Housing Revenue Account

Members of the Challenge Panel
Councillor Barry Macleod-Cullinane (Chairman)
Councillor Kamaljit Chana
Councillor Tony Ferrari
Councillor Jean Lammiman
Councillor Paul Osborn

Community Co-optees:
Seamus English
Elizabeth Hugo
Cliff Lichfield
Julian Maw

Version 2

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Chairman's Introduction and Acknowledgments

Changes to the Housing Revenue Account (HRA) have been long-awaited and are very much welcomed; in fact, HRA reform was something that I personally campaigned for when I was Portfolio Holder for Adults & Housing, 2008-10. Members of the Standing Review are pleased that the council will in future have direct control over all the revenue generated by our housing stock. However, the changes, though welcome, have come at a price, not least the £88.5milion buy out from the scheme and the subsequent increase in interest payments on the council's housing debt.

The Standing Review has sought to investigate the council's approach to the self-financing arrangement in doing so has sought reassurances that the decisions made safeguard the interests of the council and our residents. In particular, we have focused on three key areas which are discussed in more detail in the body of this report:

- Implications of 50-year debt
- Capacity of stock to support long-term repayment
- Rent Strategy

We have met four times to discuss the issues and have spoken to officers from the council and external experts on three of these occasions. On behalf of the Standing Review I would like to thank:

- Julie Alderson, Corporate Director, Resources
- Donna Edwards, Service Manager-Directorate Finance Lead, Adults and housing
- Nigel Minto, Head of Housing and Planning, London Councils
- Lynne Pennington, Divisional Director Housing Services
- Dave Roberts, Housing Finance Business Partner

As part of a visit for work on use of capital, the Standing Review met with senior members and officers in Wandsworth Council. I would like to thank them for also discussing housing finance with us: Cllr. Ravi Govindia (Leader), Cllr. Jonathan Cook (Deputy Leader), Chris Buss (Director of Finance) and Cllr. Lesley McDonnell (Chairman, Finance & Resources Overview and Scrutiny Committee).

We appreciate that there is limited flexibility with regard to the council's self-financing options and we also appreciate that some of the key decisions have already been made. We hope however, that in responding to the questions, the organization can be further reassured that the right choices have been made.

Cllr Barry Macleod-Cullinane
Chairman, Standing Scrutiny Review of the Budget

Summary and Findings

The details of Standing Review's investigation are included in the pages which follow. For ease of reference, the findings are summarized below:

- Harrow taking responsibility for its housing stock by buying-out of the HRA systems is something strongly supported by the Standing Review. However, the Standing Review sought to understand how the council evaluated the benefits that would accrue from taking on the necessary low-cost loan (to buy Harrow out of the HRA system) and what this can deliver against the consequences of long-term indebtedness, as such the Standing Review was concerned that Harrow's proposed 30-year housing business plan and 50-year housing borrowing did not provide sufficient contingencies against further regime changes.

- The Standing Review welcomed the cross-organisational co-operation described by officers intended to address increased housing need in Harrow, especially increased housing need for affordable housing options. The Standing Review also supported the continued provision of affordable homes in partnership with other organizations, especially housing associations, subject to our ability to secure nomination rights.

- The Standing Review also found that Harrow was beginning to explore making better use of its estate, along the lines of Hidden Homes, it believes that the council should be more vigorous and innovative in developing and implementing a Hidden Homes strategy for Harrow.

- The Standing Review was interested to learn about Harrow developing financial incentives – such as deposit schemes – to assist tenants qualifying for Right to Buy (RTB) to move on to home ownership but without the permanent reduction in the council's housing stock that their exercise of RTB would cause.

- Given the size of Harrow's housing stock – one of the smallest in London – the Standing Review urges that officers continue to monitor the impact of stock-loss and deterioration with a view to periodically revisiting their analysis of the option to divest to ensure that the best investment and service decisions are taken for tenants and the borough.

- The Standing Review believes that the issue of shared services has not been sufficiently explored or clearly defined by the administration across the council, potentially undermining Housing's efforts to develop policy and service options. Again, given the size of Harrow's housing stock, the renewed interest in RTB, and the need to leverage in funding to regenerate estates, the issue of shared services must be explored. Given the size of the financial and service challenges the council faces, this needs to be rectified swiftly and should draw upon the experiences of other boroughs in London and elsewhere that are developing shared services options.

- With rent by far the largest source of income within the HRA, the Standing Review queried the possibility of speeding up convergence of the council's rents with the "target rents" of social landlords, we were advised that, due to how the benefits system works, a substantial part of any extra rents collected from a rent rise above target rents would be clawed back by central government. The Standing Review also learnt from officers that the administration was exploring the possibility of revaluation of the council's housing stock, which could result in higher rents and, therefore, in more rent being collected and its complete retention locally by the council.

- The Standing Review supported the council's established practice of immediately setting rent for new tenancies at the target rent level.

- The Standing Review was keen to stress the need to monitor and understand the impact of the government's welfare reforms on rents and tenants' indebtedness, with a concern that the council take steps to address any problems or difficulties that arise.

- The Standing Review also welcomed the changes to tenancies, especially the introduction of a probationary year and a formal 5-year review of tenancies to ensure that housing provision remained relevant to our tenants' changing circumstances.

HRA Self Financing – The Details

The Housing Revenue Account (HRA) is a ring-fenced account which safeguards the rental income from council housing properties from inappropriate use, i.e. to subsidise general fund expenditure. Until recently, the nation's housing stock was treated almost as if it were a single national asset with revenue standardised across the country via the HRA subsidy system. This saw the redistribution of rental income from those councils whose stock was assessed as having low need to those councils whose stock was considered in higher need.

Harrow's housing stock was considered as being in low need, meaning that Harrow was a so-called "negative subsidy" borough, sending away around £7 million or roughly 25% of the rent collected from its council tenants to fund improvements in housing stock in other parts of the country. What's more, not all this redistributed money went on housing improvements in high need boroughs; around 20% of this money was retained by the Treasury. This has long been considered a grossly unfair system and was recognized as such in Parliament in the summer of 1997 by Nick Raynsford, the then Local Government Minister. Further, the situation worsened every year, with more and more councils becoming "negative subsidy" boroughs. Proposals for reform, initiated under the previous Labour Government have now been implemented (for the most part) by the Coalition Government.

Since April 2012, local authorities have been able to take full control of their housing income and are able to make real decisions about how to manage their housing stock – whether to improve existing properties, payback debts or build new homes – based on a 30-year plan. In return for this control, councils were allocated a share of the national housing debt held by government, essentially "buying their way out of the HRA system". A council's share of this debt is based on:

- Assessment of notional cost of each council's housing;
- Assessment of income in respect of this council housing – allowing for Right To Buy, demolitions, etc, and based on a move towards national social rent policy;

This gives us the following required courses of action:

- Where income is expected to exceed projected debt: council will be required to make a payment to government;
- Where income is expected to be less than projected debt: government will make a payment to the council – though generally this will be in the form of the payment of existing debt to the Public Works Loans Board.

For Harrow this means:

Subsidy Capital Finance Requirement (Debt)	£50,994,000
Self Financing Valuation (Income)	£139,455,000
Payment to Sec of State 28th March 2012	£88,461,000

The Government has also placed a limit on the amount of borrowing which can be supported from their rental income for each council. For Harrow, this is £149,462,000 and the level of existing housing debt and the amount newly taken on to buy out of the HRA system means that Harrow is one of a handful of London boroughs that has no headroom under the government's borrowing cap. In other words, the council's HRA cannot take on more debt.

In deciding how to manage its housing account the council must consider a number of issues:

- An assessment of the economic climate – interest rates, property markets, likely regeneration benefit from investment;

- Assessment of the state/capacity of the council's housing stock;

- The overall level of indebtedness of the authority and the impact of this new debt on the revenue capacity of the council longer term;

- Impact of the limits on housing benefit on rental income;

All of these issues and proposals regarding the management of the housing account should be incorporated into a 30-year plan.

As an introduction to our deliberations, the Standing Review was advised of a number of options which councils might pursue. We have considered a number of these in our deliberations, the outcome from which is summarized in the paragraphs which follow.

Unilateral (Going alone)	Bilateral / multilateral (Working together)
Active Asset Management – including debt restructure Repositioning the Business Plan: reforming stock performance; improving rental income and reducing costs; debt financing and management	**Headroom Trading** 'Trading' borrowing headroom between councils to bring forward investment or development
Investment & Service Partnership Maximising upfront investment through a long-term partnership contract for capital works and maintenance	**Joint Development** Combing HRA funding and available development land between authorities for new development
Stock transfer options Increasing investment capacity within the HRA through partial or trickle stock transfer	**Collective HRA Operations – including shared financing and HRA integration** Arrangements to share services, pool headroom or combine HRAs to optimise performance and maximise resources
HRA Funded Development – including back-end grant New Development within the HRA or 'grant' funded outside it – partnerships and vehicles to advance the development of new housing	

Implications of a 50-Year Debt

One of our key concerns has been the implications of the council holding a significant 50-year debt. We are concerned that this saddles our residents now and in the future with significant liability. We also note that this level of indebtedness restricts our further HRA borrowing capacity to fund future projects. Having said this, however, the loans have been arranged via the Public Works Loans Board with preferential rates – the rate for a Harrow is 3.48% over 50 years. We were advised by officers that this delivers a £2m per annum saving – based on the difference between the previous £7m per annum returned to Treasury and then redirected to other boroughs as Harrow's negative subsidy payment and cost of the low interest loan.

We have raised with officers, the option of early repayment of the self financing loan – we note with interest, that LB Wandsworth, which holds no corporate debt either housing or General Fund, is intending to repay its self-financing loan well within 15 years. We were advised by officers that under the terms of the loan which have now been finalized, that it would be possible for the HRA to repay its borrowing to the General Fund *should a decision be made that this was the most beneficial approach for the HRA*. However, officers' projections for the HRA suggest that it would not be possible to make significant repayments of debt to the General Fund in the first 5 years of the business plan due to the need to contribute towards capital investment and meet interest charges, but thereafter repayment would be possible.

Officers advised us that any repayments of the principal debt would result in reduced interest charges in subsequent years, and would also result in the HRA having the capacity to re-borrow the amounts repaid in future years should the need arise. However, it is unlikely that the historically low rate for this long-term borrowing would be repeated and thus future borrowing could be more expensive for the authority.

Officers have also advised us that, as a result of HRA reform, the Council has left the HRA subsidy system and so is no longer receiving a Major Repair Allowance to help fund investment in the Council's housing stock. Instead, we are required to make a provision for depreciation of the stock which is intended to provide a fund for future investment. This provision is a permanent transfer of resources from revenue to capital, and is the means by which the majority of future investment will be funded.

Findings

Harrow taking responsibility for its housing stock by buying-out of the HRA systems is something strongly supported by the Standing Review. However, the Standing Review sought to understand how the council evaluated the benefits that would accrue from taking on the necessary low-cost loan (to buy Harrow out of the HRA system) and what this can deliver against the consequences of long-term indebtedness. When it visited Wandsworth, the Standing Review met with the Leader, Deputy Leader and Chairman of Overview & Scrutiny and senior finance officers who all counselled against council indebtedness. The Standing Review also learnt that Wandsworth carries no General Fund debt and, whilst it had bought out of the HRA, was planning to pay that borrowing back within 15 years. Given that the HRA financing regime has been changed twice in 15 years, the Standing Review was concerned that Harrow's proposed 30-year housing business plan and 50-year housing borrowing did not provide sufficient contingencies against further regime changes.

Capacity of Stock to Support Long-Term Repayment

Current stock levels
Harrow has a comparatively small housing stock – at just under 5,000 tenanted units and around 1,200 leasehold properties, Harrow has one of the smallest housing stocks in London. The review group is concerned about the capacity of this small stock to continue to support the loan over such a long period, particularly in the context of the enhanced 'Right to Buy' (RTB) opportunities announced by Government and potential stock depreciation.

In order to retain the capacity to repay the loan over such a lengthy period, the council must maintain its rental capacity via its stock. Officers advised us that the increase in RTB discounts has made RTB a more attractive proposition for some tenants, and has led to an increased number of expressions of interest since the start of the year, as well as actual applications to purchase properties. A total of four properties were sold under RTB in quarter two of this year, with a minimum of a further three more sales expected this quarter, as well as ten more applications in the pipeline – a total of 17. We were advised that no sales occurred in 2011/12.

We have been concerned that the enhanced discounts and consequent sales might reduce the viability of the stock. In discussions, officers have advised us that the most critical factor in terms of the impact of sales is the extent to which the council is able to control and/or reduce the maintenance and management costs of the remaining stock. Officers have estimated that if sales exceed 50 per year and costs cannot be controlled, the stock level may become unviable after approximately 16 years. Whilst there may be options for controlling expenditure – and opportunities for sharing services is discussed further below, we also feel that other options for maintaining stock levels need to be explored. As such we were pleased to be appraised of work which the council has undertaken and would encourage officers to pursue this rigorously.

We were pleased to be advised by officers that the commissioning panel process has enabled the council to develop a more holistic approach to housing issues and in particular that the organization has noted the necessity for the increase in the greater availability of affordable housing in the borough. This may well lead to potential deals through more creative use of capital resources (including General Fund resources) with housing providers. In this regard, we would suggest that the council should consider the work of Hillingdon where creative approaches to construction of packages of land and purchase of neighbouring properties has resulted in beneficial provision of more housing.

The review group would also strongly commend the administration to examine Wandsworth Council's innovative 'Hidden Homes' scheme which has seen garages, laundries, under-used communal spaces, etc, used to provide additional housing and to build out crime problem areas. We were again pleased to hear that officers have embarked on the development of a 'Garage Strategy' to help identify potential sites for similar development. Based on the work carried out so far, officers have advised us that it may be possible to build in the region of 45 new affordable homes on the sites identified for development, subject to further feasibility investigations and planning permissions. We understand that it has not yet been determined who will fund, build and own/manage the new homes, but we would urge that the, following the Wandsworth Hidden Homes model, that the development of new affordable housing provision on such sites secures as a minimum council nomination rights to those properties. The council is also keen to identify sites which can be used as part of a larger parcel of development land; we would urge officers to approach potential opportunities creatively in order not to miss significant opportunities.

The review group was also pleased to be advised that officers are investigating the potential to access part of the £100m grant funding pot announced as part of the Mayor's Housing Covenant to stimulate the supply of intermediate housing within London, potentially linking with initiatives with regard to garage sites to develop shared-ownership housing. Again, this a welcome development, reflecting our desire for the council to be creative in its approach to the provision of the increased need for affordable housing.

We would also refer officers to the recommendations made by the previous Standing Review of the Budget, which met during the previous administration and which made a number of recommendations regarding the council's use of its capital assets.

We note that the council is unlikely to find "Pay to Stay" proposals helpful as our approach will be to encourage high earners to vacate properties rather than to stay in them. Indeed, given the high numbers of tenants who are in receipt of benefits, opportunities offered are likely to be minimal. However, in discussions on this item, we were interested to hear of proposals for the council to offer tenants financial incentives to leave properties (e.g. deposit contributions) rather than to exercise their rights to buy – thus maintaining the rental income stream and preserving the level of the housing stock. We think that this is an excellent proposal and encourage its swift implementation.

In the longer term, we note officers' views that the capital resources released by the long-term self-financing agreement can enable significant investment in our stock. Again, we would urge that these resources be used creatively, to maximize the benefits for local people through potential partnership investments wherever possible. However, we would reiterate our concerns that a balance must be struck between the benefits for future housing investment and the loan repayment requirements.

Condition of the council's existing housing stock

Officers advised the group that HRA reform has helped the council by enabling investment in both responsive repairs and major works and enabling the delivery of work which the council would not previously have been able to. In order to quantify the extent of repairs required, the council is in the process of developing its Asset Management Strategy for its housing stock, and the intention is to establish a budget for each of the next three years, with detailed programmes of works intended to be completed over this period, as well as a longer-term investment programme over the remainder of the business plan period of 30 years. On the basis of the current stock condition information and current HRA projections, all of the investment requirements of the council's housing stock can be met over the period of the business plan. In 2012/13, the council is on target to deliver a capital programme in excess of £9 million, including, for the first time for many years a 5-year external decorations programme that will start on site before the end of the calendar year.[1]

[1] Detailed figures with regard to the external decorations programme are awaited from Housing.

Stock investment/improvement options
As part of the process of surveying properties and assessing future investment needs, Asset Management staff are being asked to identify properties requiring significant investment over the period of the business plan as well as properties with inherent defects or those with an estimated useful life of less than 30 years.

Properties identified within these categories will then be assessed as part of Housing's affordable development strategy to determine whether alternative approaches to significant investment in the properties may be appropriate. Such alternative approaches could include disposal for regeneration, establishing a Special Purpose Vehicle or Joint Venture Vehicle with partners to enable redevelopment, or indeed considering the feasibility of such redevelopment being possible within either the General Fund or HRA, depending on the availability of resources and the stage the HRA was then at.

The standing review again welcomes this creative approach to maintenance of the housing stock.

Impact of estate regeneration
Estate regeneration is something that the Council has been successful in achieving in recent years (e.g. Rayners Lane and Mill Farm), although these schemes were made possible by the availability of grant funding. The availability of grant funding has reduced over recent years, and currently is largely being directed towards property on an intermediate-type basis (e.g. 80% market rents and Low-Cost Home Ownership) and therefore regeneration of estates on the scales previously seen is not as easy for Harrow as it has previously been.

In addition to the impact of reductions in grant funding, Harrow has a very small housing stock compared to most other London Boroughs and does not have the ability to lose significant proportions of it without impact on its residual HRA, nor can it afford to give up social-rented stock in favour of alternative tenures. Whilst estate regeneration is part of the council's medium-term strategy, work will be commissioned to review options for how those development objectives might be delivered and this could involve estate re-modelling where appropriate, possibly in conjunction with garage sites and/or other land held corporately, as well as regeneration.

The standing review recognizes the need for the maintenance and enhancement of the existing stock and, again, welcomes the creative approach which is being developed in this regard.

Divestment
Given the size of the council's housing stock, we have asked officers whether divestment/transfer of stock is a realistic option for the council. The option for the establishment of an Arms Length Management Organisation was discussed with tenants some time ago and was at the time rejected when the whole project collapsed over a decade ago. We were also advised that work to assess the viability of transfer/divestment suggested that the income generated would be insufficient to pay off the council's overall debt and is thus not an option for the council at this time. Whilst we accept this analysis, and also recognize that divestment is not an option for the current administration, we urge officers to monitor the impact of the loss or deterioration of existing stock and the potential need to reassess the position in order not to jeopardize our financial position and the viability of our stock.

Shared Services
We considered a number of the difficult issues surrounding, the size of our stock, its condition and options for improvement or divestment. Whilst we accept that options are constrained, there is one avenue which we do not feel has been sufficiently investigated by the council, in this specific case or in general across the council. We remain deeply concerned about the lack of strategic direction with regard to the council's approach to shared services; there appears to be no clear council-wide policy for developing shared service options. We are concerned that this leaves individual departments, like Housing, with little to guide them in developing a more innovative approach to service delivery through service delivery partnerships with other councils or, in this case, with Registered Social Landlords (RSLs) that will deliver the maximum benefits to the council.

In the case of housing, we feel that more effort should be put into resolving some of the potential difficulties in managing our housing stock through a shared services approach; indeed we were pleased to be advised by officers of the potential to offer housing management services to RSLs, particularly where their properties neighbour council ones. We would suggest that work is undertaken to identify either services which we could manage on behalf of others or services which we would like to see managed by other boroughs on our behalf. We note the work underway with West London Alliance and hope that this can continue and be expanded. For our own part, we will continue to seek an explanation of the council's strategic approach to alternative delivery models.

We would also suggest that officers consider the approach to shared service delivery which is being developed by new unitary authorities and the tri-borough initiative in central London (Hammersmith and Fulham, Westminster and Kensington and Chelsea) and the outer London shared services initiative between Bexley, Bromley and Croydon councils.

Findings
The Standing Review welcomed the cross-organisational co-operation described by officers intended to address increased housing need in Harrow, especially increased housing need for affordable housing options. The Standing Review also supported the continued provision of affordable homes in partnership with other organizations, especially housing associations, subject to our ability to secure nomination rights.

The Standing Review also found that Harrow was beginning to explore making better use of its estate, along the lines of Hidden Homes – a Wandsworth initiative to make creative use of all redundant space. The Standing Review found that only limited steps have been taken to date; it believes that the council should be more vigorous and innovative in developing and implementing a Hidden Homes strategy for Harrow.

The Standing Review was interested to learn about Harrow developing financial incentives – such as deposit schemes – to assist tenants qualifying for Right to Buy (RTB) to move on to home ownership but without the permanent reduction in the council's housing stock that their exercise of RTB would cause.

Given the size of Harrow's housing stock – one of the smallest in London – the Standing Review urges that officers continue to monitor the impact of stock-loss and deterioration with a view to periodically revisiting their analysis of the option to divest to ensure that the best investment and service decisions are taken for tenants and the borough.

The Standing Review feels that the issue of shared services has not been sufficiently explored by the administration across the council services, though it notes that Housing has undertaken some good work in this respect. Given the size of Harrow's housing stock, the renewed interest in RTB, and the need to leverage in funding to regenerate estates, the issue of shared services must be explored more fully. Unfortunately, the Standing Review believes that the administration's lack of a clear directional steer has meant that officers across all departments find little to guide them in developing shared services options. Given the size of the financial and service challenges the council faces, this needs to be rectified swiftly and should draw upon the experiences of other boroughs in London and elsewhere that are developing shared services options.

Rent Strategy

Rental income

Another of the key issues for the Standing Review with regard to the robustness of the self-financing arrangements which have been put in place is the sustainability of the council's rent strategy. The only income available to support the repayment of the debt is the income from housing rents. Having considered the issues around the capacity of the housing stock to support the debt, we have also sought reassurances with regard to the level of rents and the overall revenue derived from them.

We were advised that the council's current rent strategy is to follow the rent convergence process established by the previous government in 2001 to try to close the gap between rents in local government and those set by housing associations. Under this strategy, councils are required to calculate a target rent for each individual property based partly on local affordability (as assessed by regional earnings as compared to the national average) and partly based on local property values. Rents for individual properties have been converging over time with the target rents specific to those properties, with a cap being placed on the maximum annual increase of RPI + 0.5% + £2. The council's strategy was reviewed in March 2011, at which point it was determined that Harrow would continue to follow rent convergence for existing tenants, with the intention of the majority of the council's tenants having achieved convergence with target rents by 2015/16. New tenants are automatically put straight on at the target rent.

During our discussions, we pointed out to officers that our neighbouring boroughs are all now above the target rent and we queried whether the council can jump quickly to increase rents to this level. Officers advised that increasing rents beyond the target rent may result in the council losing up to two thirds of the additional income as a result of rent rebate subsidy limitation, which would reduce the amount of rent rebate subsidy. However, given the level of investment in the housing stock over the last 10 – 12 years, officers advised the Standing Review that the administration is currently exploring the potential to revalue its housing stock which could, in turn, legitimise a revaluation of rents as the target rent would likely be increased. If successful implemented, this revaluation could result in approximately £750k extra rental income per annum from the higher rents. Officers advised that other councils are also considering target rent increases as a result of a revaluation of property.

Impact of Welfare Reforms on Rental Income

Again, the capacity of residents to pay rents may have significant impact on the success of the self-financing arrangements. Where benefits are subject to caps and in the context of proposals regarding the direct payment of benefits to residents, we urge officers to ensure that the full impact is understood, particularly as 75% of council tenants are in receipt of full or partial housing benefit. This may mean that the impact of increases in rents may well be absorbed through the housing benefit system, but also that limitations on benefits might increase tenants' indebtedness. We would suggest that changes in the system and their implications on both tenants and council finances are closely monitored.

Tenancies

During our discussions with officers, we were advised of the changes to tenancies which are currently being consulted upon. In future, all new council tenancies will be offered for 5-years, subject to the completion of a probationary year. This will offer the council much greater flexibility in terms of the control of the stock and the rent charged. However, the potential benefits from this greater flexibility are unlikely to be realized in the short term given the limited turnover in tenancies as existing tenants retain their existing rights.

Findings

With rent by far the largest source of income within the HRA, the Standing Review queried the possibility of speeding up convergence of the council's rents with the "target rents" of social landlords, especially since several other boroughs across London (like Hillingdon, Wandsworth and Brent) are substantially above target rent. It was advised that, due to how the benefits system works, a substantial part of any extra rents collected from a rent rise above target rents would be clawed back by central government. (The Standing Review supported the council's established practice of immediately setting rent for new tenancies at the target rent level.) However, the Standing Review also learnt from officers that the administration was exploring the possibility of revaluation of the council's housing stock, which would result in higher rents and, therefore, in more rent being collected and its complete retention locally by the council.

The Standing Review was keen to stress the need to monitor and understand the impact of the government's welfare reforms on rents and tenants' indebtedness, with a concern that the council take steps to address any problems or difficulties that arise.

The Standing Review also welcomed the changes to tenancies, especially the introduction of a probationary year and a formal 5-year review of tenancies to ensure that housing provision remained relevant to our tenants' changing circumstances.

Conclusion

The Standing Review is fully supportive of the administration's decision to "buy-out" of the flawed HRA subsidy system which had seen around a quarter of our tenants' rents redistributed to other parts of the country and spent on improving other boroughs' housing stock. "Buying-out", whilst increasing the indebtedness of Harrow's HRA, will see annual savings between what was lost in "negative subsidy" and the interest payments liable on this extra debt. Those savings will certainly be available to benefit our tenants through improved services and increased investment on their estates. That said, the Standing Review was deeply concerned at the length of the proposed borrowing (50-years) and that no debt reduction is envisaged for the next 5 years, especially when Wandsworth have set out their intentions to pay off their entire new debt from buying-out from the HRA within 15 years. Given how the financing of the HRA has undergone two fundamental changes in 15 years, the administration's 50-year approach puts Harrow at significant financial and organisational risk from national policy changes.

Harrow has one of the smallest housing stocks in London; understanding the implications and constraints of this must inform work done with partners, nomination rights, land disposals and RTB sales (and alternatives), reviewing divestment, and, most notably, the development of shared services.

The Review was extremely concerned that officers across the council were working without a clear directional steer from the administration when it comes to developing shared services options. This must be urgently addressed as the answers this gives helps provide answers for many other aspects of housing policy in the borough. We appreciate that there is support for the development of a shared service model in Housing, and we understand that officers are working towards this, but there is no clear direction for the council as a whole, and this may jeopardise progress in the Housing Department.

During our meetings, we also heard about the cross-organisational co-operation emerging to develop affordable housing options in Harrow. The Review was concerned that nomination rights be secured in new developments, especially with housing associations, but we were also concerned that relatively little had been done to date, despite commitments to do so, when it came to developing a Hidden Homes policy, along the lines pioneered by Wandsworth – and is something in need of attention.

Rent is the key source of income for the HRA. The Standing Review was advised by officers that hastening convergence to (and possibly beyond) "target rents" (where council rents would match those of social landlords) would likely lose some two thirds of the extra rental income to central government under the benefits system. The Standing Review was advised by officers, however, that the administration was carefully exploring whether it could undertake a revaluation of the council's housing stock; this would result in higher rents per unit being chargeable, with more rent therefore being collected and retained completely by the council. With the government's welfare reforms currently being implemented, the Standing Review recommends that tenants' indebtedness be monitored and steps taken to assist where necessary.

Lastly, the Standing Review welcomed the government's changes to council tenancies. We were particularly supportive of the introduction of a probationary year and a formal periodical review of tenancies – Harrow has chosen a 5-year review date, and this seems sensible – to ensure that decisions over housing provision will become more relevant to our tenants' actual circumstances through time.

I would like to thank, again, my colleagues on the Standing Review, the officers, members and experts we met with in developing this report and to Ms. Margetts for her hard work in drawing together the final report. We hope that the finished report will serve to inform the administration's development of housing policy, financial decisions and service delivery.

Cllr Barry Macleod-Cullinane
Chairman Standing Scrutiny Review of the Budget.