

**REPORT FOR: OVERVIEW AND  
SCRUTINY COMMITTEE**

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<b>Date:</b>	20 <sup>th</sup> September 2012
<b>Subject:</b>	Standing Review of the Budget – Quarterly Report
<b>Responsible Officer:</b>	Alex Dewsnap, Divisional Director, Partnership Development and Performance
<b>Scrutiny Lead Member area:</b>	Cllr Jerry Miles, Policy Lead Member, Corporate Effectiveness Cllr Tony Ferrari, Performance Lead Member, Corporate Effectiveness
<b>Exempt:</b>	No
<b>Enclosures:</b>	<i>None</i>

**Section 1 – Summary and Recommendations**

This report updates the Overview and Scrutiny committee on the work which has been undertaken by the Standing Scrutiny Review of the Budget

**Recommendations:**

Councillors are recommended to:

- i. Consider and comment on the work of the standing the review of the budget
- ii. Consider and comment on/approve the recommendations made in respect of:

## **Section 2 – Report**

This is the second progress report from the Standing Review of the Budget.

The review was established at the end of 2011 and has met eight times as a review group and has also undertaken visits to a number of other boroughs.

The purpose of the review is to consider the long term, strategic financial performance of the council and to offer advice with regard to evolving local government financial policy. The group has identified a number of key strategic issues which it wishes to consider, this report updates the committee on the review's work on:

- Management of major contract renewal
- Localisation of Council Tax
- Self financing of the Housing Revenue Account
- Management and strategic use of the council's capital budget

### **Management of Major Contract Renewal**

The review group considered this issue at its meeting in May. A number of concerns had been raised with regard to how effectively the council was monitoring contract renewal process and thus how far it was able to maximise contract savings for the authority. Although a contract register had been in place in Harrow for a number of years, this was not accurate or well managed. The council is establishing a more effective process for setting up and managing the procurement process. As such the strategic procurement board has been established comprising officers from all parts of the council alongside directorate procurement boards. The board offers guidance to officers undertaking procurement exercises and offers support and good governance. The board provides strategic oversight of contracts – both in terms of the importance of contracts as well as their cost. A contract register will be used as a key definition of what is coming up. A forward plan of procurement will be devised identifying all contracts over £1m which will expire in 6 months, 12 months, 18 months and beyond 18 months.

The review group made the following observations on which it seeks the views of the committee and which, if agreed, it would like to refer to Cabinet/Portfolio Holder:

- The contract register is a welcome development which must become the cornerstone of the contract renewal management process. Officers are urged to continue to pursue the content of the register to ensure that it is as comprehensive as possible.
- During discussions, the potential to use cost engineering processes was identified. This process is widely utilised in the private sector as a means of understanding market costs and trends for use during contract

negotiations. Whilst there may be differences between public and private sector service provision, a greater understanding of public sector process and services will mean that the council is able to enter contract negotiations in a more informed position. Whilst this isn't a simple matter for some local authority services, in the interest of best practice, the council should develop its expertise in this area.

- The council needs to develop a longer term, strategic approach to cross council/agency procurement. There must be opportunities to maximise efficiencies in this area and these should be identified by the council.
- The review group is concerned about the level of political oversight of the procurement process. The comments from the portfolio holder with regard to his wish to establish quarterly monitoring of large contract via a cross party and also his desire for portfolio holders to participate in the departmental bodies are welcome.

### **Localisation of Council Tax Benefit**

In June, the Standing Review of the Budget and Standing Review of the Better Deal for Residents held a joint meeting to consider the implications of proposals to localise Council Tax Benefit.

The Government is abolishing the national scheme of Council Tax Benefit and councils must develop their own local schemes to replace it. Extra funding to councils will be provided, based upon the historic spend on CTB in their areas, but this funding will be around 10% lower. We are advised that when the effects of this lower funding are combined with the council's planned 2.5% council tax rise for 2013-14, the council will have to find an extra £3.5 million to fund its new scheme for the next financial year. There are a number of possible approaches to addressing this funding gap. The council could:

- 'passport' all of the reduction to claimants;
- fund the difference by making more or greater savings elsewhere; or
- increase further the Council Tax for the remaining residents.

The review group was advised that the second and third options are not considered a sensible option in the context of existing budget pressures; the approach being followed is to develop a localised scheme that falls within budget. This necessarily means reducing the number of claimants, reducing the value of benefits or a combination of both. The council is currently consulting on a possible replacement for the scheme locally and the purpose of the review group's meeting with officers was to assess how the consultation process is being run and also to comment on the initial approach.

The review noted the administration's desire for the scheme to be self-financing which will make it less vulnerable to fluctuations in relation to the growth in the number of claimants. The review group emphasised its belief

that the scheme should incentivise residents to return to work and thus there needs to be a direct correlation between the scheme which is introduced and the council's regeneration, training and employment priorities.

The group expressed its concern with regard to the selection of wards for the running of road shows as part of the consultation. These were predominantly in the south of the borough, reflecting the higher number of claimants in this area; yet this runs the risk of skewing the survey responses.

The review group will return to this issue when the results of the consultation are known and policy proposals are emerging.

## **Housing Revenue Account Self-Financing**

Our last report in April outlined the principles behind Housing Revenue Account Self-Financing proposals.

In March 2012, housing debt and responsibility for all social housing revenue transferred to local authorities. The reform of the HRA involves authorities "buying themselves out of the system" by taking on a share of the historic public housing debt. The changes mean that effectively a housing authority will own its properties and will retain all revenues generated by this property base. In order to do this, authorities were required to 'buy back' their housing debt from the Treasury funded through a loan from the Public Work Loans Board; for Harrow this meant a payment of £89m to be paid back over a 50-year period. (This £89m is in addition to the current HRA debt of £60m+ meaning that the HRA debt now stands at over £150m.

The group is very concerned about the longevity of this new debt and whilst being generally reassured with regard to the policy change, wished to investigate whether the option of a 50-year loan represents the best deal for the authority and for tenants and residents. In July, the group met with officers to consider the implications of the self-financing proposal. The group was specifically interested in understanding the implications of taking on such a large loan given Harrow's comparatively small social housing stock that will have to sustain this debt. To this end, the review group asked officers to provide information, including where consideration had been undertaken of the option to divest the stock and with it responsibility for the debt and ongoing maintenance costs. It also asked officers to confirm the rental policy which will sustain this 50-year debt, given the potential for this to fall to Council Tax payers if in future there are any issues with regard to repayment of the debt. A number of further issues were identified for discussion with regard to this complex issue:

- Options for increasing the housing stock
- Stock investment options – specifically the condition of the stock and its maintenance/improvement
- Rent strategy

A further meeting to explore these issues is being scheduled for October.

A detailed response from this aspect of the review's deliberations will be presented to the Overview and Scrutiny committee's meeting in November.

### **Management and Strategic Use of Capital**

The review group's previous report identified concerns that the capital budget has not in recent years been considered with the same rigour in terms of management as the revenue budget and that until recently there was little attention paid to the allocation of capital resources and the longer term implications of capital spend – this has also been a point of discussion during consideration of the HRA self financing process. As such, the group raised a number of issues with the Corporate Director of Resources and has been assured by the Corporate Director of Resources that a more vigilant approach is being taken to the allocation and management of capital resources, in particular via the capital forum.

More fundamentally the group has also decided to consider how the council uses capital funds to deliver its strategic objectives and is undertaking a specific piece of work in this regard. Members of the review group have visited Hackney, Newham and Wandsworth and discussed with councillors and officers how they have used capital funding to support the overall regeneration of their boroughs. The key points identified during these visits include:

- The need for clear strategic objectives for the development of the borough and especially for specific geographical areas;
- The importance for political stability;
- The need to understand the asset base and the potential use of the asset base in order to maximise the potential from individual sites – including receipts;
- The need to identify potential partnerships in order to lever-in additional resources;
- The importance of identifying relevant funding schemes which can support the delivery of the council's objectives;
- The need for a clear understanding of the revenue implications of capital expenditure – regular RCCO payments (Revenue Contribution to Capital Outlay) – Wandsworth, for example, will not fund capital projects which cannot be paid for from government grants, funding agencies (TfL), or its own capital receipts;
- The need for excellent project/programme management systems;

- The centralisation of 'windfalls' for use to deliver strategic objectives;
- The potential impact of a single, clear political lead to drive forward the council's ambitions;
- The need for a clear distinction between funding the basics – roads, streetlights, etc, – and more strategic ambitions when it comes to regeneration;
- The need to recognise potential inward investment and development opportunities and be able to attract these, such as Westfield, Olympics, Battersea Power station;
- The need to maximise regeneration receipts – S106 – but within the context of the capacity to attract inward investment;
- Identifying potential different delivery and investment structures, e.g. separate provision vehicles.

These findings will form the core of discussions in the autumn with Harrow's officers regarding how the council might improve its use of capital. A detailed report on the outcome of these discussions will form a separate, subsequent report to the committee in due course.

### **Other reports and workstreams**

The standing review will also be considering the implications of the Business Rate Retention Scheme for the borough at a meeting in November.

It will consider the council's proposals with regard to fees and charges in December.

Further reports on the other issues included in the review's programme of work will be submitted to the Overview and Scrutiny committee and Cabinet in subsequent quarterly reports.

### **Financial Implications**

There are no financial implications associated with this report.

### **Performance Issues**

There are no specific performance issues associated with this report but it is anticipated that subsequent reports, detailing recommendations with regard to capital management and HRA self financing will support the council's financial performance.

### **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.

### **Corporate Priorities**

All

### **Section 3 - Statutory Officer Clearance**

Not required for this report.

### **Section 4 - Contact Details and Background**

#### **Papers**

##### **Contact:**

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##### **Background Papers:**

None