REPORT FOR:	**PERFORMANCE AND FINANCE SCRUTINY SUB-COMMITTEE**
Date of Meeting:	21 January 2014
Subject:	Progress against the Recommendations of the Report on the Standing Scrutiny Review of the Housing Revenue Account Budget
Responsible Officer:	Lynne Pennington, Divisional Director of Housing
Scrutiny Lead Member area:	Barry MacLeod-Cullinane, Deputy Leader and portfolio holder for Adults and Housing
Exempt:	No
Enclosures:	Appendix 1 – Response to the recommendations contained within the Report on the Standing Scrutiny Review of the HRA Budget

Section 1 – Summary and Recommendations

This report sets out the progress made against each of the recommendations contained within the Report on the Standing Scrutiny review of the HRA Budget

Recommendations:
Members are recommended to note the progress made to date, and the proposals for further action set out within this report.

Section 2 – Report

Introduction

1. The final report from the Scrutiny Review of Self Financing in the Housing Revenue Account (HRA) was reported to Cabinet on 13th December 2012. It was an important and welcome report investigating the Council's approach to the Self Financing arrangements with a view to ensuring that the interests of both the Council and its residents have been safeguarded as a result of the decisions made.

2. The Standing Review focused on three key areas in respect of the Self Financing HRA:

   - Implications of the HRA taking on 50-year debt

   - Capacity of the HRA to support long-term repayment, particularly in the context of increased sales under Right-to-Buy

   - Future rent strategy

3. The review report welcomed the move to a self-financing HRA, but felt there were several areas where further work would be necessary. The report therefore set out a number of recommendations/observations as follows:

   a. 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 organisations, especially housing associations, subject to our ability to secure nomination rights.

      The Standing review did, however, feel that the Council should be more vigorous and innovative in developing and implementing a Hidden Homes strategy for Harrow.

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

   c. 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.

d. 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. 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 within London and elsewhere that are developing shared service options.

e. The Standing Review was informed 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.

f. 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.

4. The progress that has been made in respect of each of these points is set out in Appendix 1.

Financial Implications

5. Many of the actions detailed in the responses have revenue costs, primarily through existing staff resources and budgets. Bids for new proposals where there is no existing budget either have already or will be made through the appropriate commissioning channels.

6. Bids for capital to continue with existing initiatives or commence new ones will be made through the Capital Forum.

7. It is acknowledged that the availability of new resources is very limited and therefore utilising external funding opportunities and partnership working with the private sector will be key to delivering our objectives, particularly in respect of the provision of new affordable housing.

Performance Issues

8. There are no specific performance issues arising directly from the proposed decision.

Environmental Impact

9. There are no specific environmental impact issues arising directly from the proposed decision. The potential impact of each of the initiatives will need to be considered as part of the approval process for that initiative.

Risk Management Implications

10. Risk assessment will be undertaken for specific projects as recommended by Scrutiny Committee and risk registers maintained for major projects.

Equalities implications

11. Outline Equalities impact assessments were produced for some of the initiatives outlined in the original response as part of Housing's Commissioning Panel submissions. Further detailed assessments either have already been or will be produced for each of the proposals as they are developed.

Priorities

12. This report does not in itself contribute towards the administration's priority to deliver a cleaner, safer and fairer Harrow, but the Cabinet reports for the individual proposals will have set out how each one would contribute towards delivering the priorities in place at the time of the report.

Section 3 - Statutory Officer Clearance

13. Not required in this case as the necessary clearances will have been sought in respect of the respective Cabinet reports.

Section 4 - Contact Details and Background Papers

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Background Papers: Standing Scrutiny Review of the Budget – Report on the Self Financing of the Housing Revenue Account, presented to Cabinet 13 December 2012

Standing Scrutiny Review of the Budget – Self Financing Housing Revenue Account

Following the Scrutiny review of the self-financing Housing Revenue Account, the report produced by the Committee contained a number of recommendations and/or comments in respect of the Housing Revenue Account. A response was produced which set out the actions Housing proposed to take, along with a list of the officers responsible for taking these actions forward, and this was reported in January 2013. The report now being considered is a follow-up report setting out the steps Housing has taken to deliver against the action plan.

There were six key recommendations arising from the Scrutiny review, and these are set out below, along with the actions Housing has taken and outcomes where applicable:

1. 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 organisations, especially housing associations, subject to our ability to secure nomination rights.

   The Standing review did, however, feel that the Council should be more vigorous and innovative in developing and implementing a Hidden Homes strategy for Harrow.

   Response:

   Significant progress has been made with regard to developing new affordable housing on existing Council land. A review of housing land assets was commissioned in December 2012 and completed in April 2013.

   The study, undertaken by Sector, considered the capacity for new development within the Council's existing HRA estate and the different options for how an initial development programme could be resourced and internal capacity built to deliver future programmes. It identified an initial small scale development programme that could be taken forward relatively quickly.

   The Garage Strategy Steering Group (comprised of Members, officers and resident representatives) had already assessed the capacity for new development on existing garages sites, especially those currently vacant or with low levels of occupancy and requiring refurbishment. The Sector study identified a number of additional small infill development sites. In total the potential capacity is for around 170 units. The garage sites/infill opportunities were prioritised to establish a first phase 50 unit development programme.

   The potential for the Council to directly fund the infill developments through the HRA was modelled. This concluded that a development programme of up to 150 new build homes over the next four years could be funded from HRA resources and the Affordable Housing Pot, although any development proposals would need to be the subject of detailed feasibility work and costings before numbers could be finalised. We also have obtained some funding from the Mayor's Housing Covenant[1] to support the building of 10 shared ownership homes as part of this programme. Building the new homes and retaining them within the HRA improves the financial position of the HRA over time due to the impact of the additional net rental stream from the new units. This means that more resources would be available to put towards additional HRA development or other service initiatives in subsequent years.

The Sector study also carried out a high-level assessment of the potential to provide additional housing through redevelopment/regeneration of existing housing estates by looking at current densities; potential density, Council ownership and consequent buy back costs, build costs and house prices. On approximately half of the estates, the Council's ownership is less than 60% and therefore redevelopment is not viable taking into account the acquisition of freehold and leasehold interests. Many others have no potential for intensification because of existing densities.

8 estates were shortlisted for further investigation. The high level assessments indicated that between 49 and 339 additional affordable homes may be delivered through estate regeneration and intensification. However, on some of the estates the majority of new homes developed would need to be for private sale to produce a viable business plan. In some cases additional public subsidy would need to be levered in to allow them to break even as was the case with the Rayners Lane and Mill Farm estate regeneration schemes. These will require consideration of different delivery models to ascertain the optimum solution.

The outcomes from the Sector study were reported to Cabinet in June 2013 with recommendations approved to:

- Take forward HRA funded direct delivery of new affordable homes on the identified garage/infill sites. As the Council has no recent experience of undertaking new build housing development, that delivery of the first phase programme should be supported by procurement of a development management service. An essential element of the service procured will be to develop internal capacity through training, coaching and mentoring so that further phases can be managed internally.

- Take forward detailed feasibility studies on the identified estates to establish the potential for a realistic and deliverable regeneration

[1] On 28 September 2012 the Mayor launched a new housing covenant to provide homes for working Londoners. This came in two parts with up to £100m of capital investment and a commitment to improve working Londoner's intermediate housing options through deregulating the market and cutting red tape.

programme, subject to resident consultation following the best practice principles already established for the Mill Farm and Rayners Lane estate regeneration schemes.

Garage sites/infill sites progress

A procurement exercise to appoint a development management service through a selected tender list including a range of technical consultancy firms and housing associations completed in September 2013. Unfortunately only one tender was received for the service and this was not considered sufficient to make an appointment. Feedback from suppliers was that they did not have the capacity to provide such a service due to the high level of similar work in London working to GLA driven deadlines for grant take-up.

In order to move the programme forward, a temporary Project Manager has been appointed and we are in the process of procuring technical consultants including architects with the intention to draw up plans and submit planning applications for the prioritised sites by April 2014. A PPA is being agreed with Planning Services to provide planning advice on these and the estate redevelopment/regeneration feasibility studies.

Estate redevelopment/regeneration feasibility studies progress

Grange Farm estate has now been added to the list of estates to be investigated further, making a total of 9 estates.

A procurement exercise to appoint design and financial appraisal consultants was conducted in autumn 2013 and PRP, a leading architectural and multi-disciplinary practice was appointed in December to take forward the detailed feasibility studies, which are due to complete in April 2014. Kicking off in January 2014, we will be visiting the estates and holding consultation events with residents to start the design option process. Residents will be involved throughout the study and have the opportunity to influence the outcomes.

Strategic Delivery options

The Sector report concluded that affordable housing development on a significant scale beyond the first phase development programme will require a different strategic approach. With regard to the HRA this will be necessary because its capacity is limited by the debt cap. Although the government has recently provided some more flexibility with regard to the debt cap, it will not be sufficient to assist Harrow finance a larger development programme. Various partnership approaches were identified to be explored further to consider how both HRA assets and corporate land assets can most effectively be used to increase the supply of housing. This included the Council taking a role in leading the development of new build private rented housing in the borough. Cross directorate discussions around the potential for these opportunities are ongoing.

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

Response:

Grants to Move Scheme (financial incentives for council tenants):

Scheme outline

The Grants to Move scheme was approved at the Cabinet meeting on 20th June 2013 and the scheme itself was launched on 30th September 2013. Prior to the launch, publicity at events and via Homing In led to three tenants coming forward and being accepted as pilot cases.

The scheme offers council tenants grants to vacate their council home and move in one of three ways:

1) Downsizing to a smaller council or housing association property

2) Moving to a private rented property

3) Buying a home privately

The scheme is entirely voluntary and officers offer support and advice to prospective movers, and carry out checks to ensure the proposed moves are sustainable in the longer term, and that they meet the objective of freeing up homes to be allocated to households in high priority need.

Progress as at 12 December 2013

To date 2 private rented moves have been completed. Both released two bedroom properties and the tenants have moved out of Harrow for family reasons. The total cost of the two grants and associated removal costs has been £10,000. These grants have allowed the council homes vacated to be allocated to families on the waiting list, and have resulted in two families leaving B & B accommodation. The average net cost to the council of a family in bed and breakfast is currently in excess of £8,000 per year.

One home ownership grant, which would have released a 3 bedroom parlour house, was being actively pursued but has fallen through due to complications with the conveyancing process which became protracted and costly for the tenant, and led to him withdrawing his application.

Since the launch we have received over 40 enquiries via telephone, Grants2Move email and referrals from Housing Management Officers. Applications can now be made directly through the Harrow council website.

There are currently 6 home ownership grants and 4 grants to moves to private rented accommodation in the pipeline and a further 7 grant cases have been closed for various reasons (not eligible/ withdrawn/ referred for fraud investigation). Officers continue to work with tenants wanting to downsize, although there have been no moves yet under the enhanced scheme offered as part of the Grants to Move launch.

Next steps

Officers propose to carry out further publicity for the Grants to Move scheme in January/ February 2014 both to tenants and internally to council officers, and we are recruiting another officer to help follow up on enquiries. We will also review how the scheme is working after 6 months (end March 2014) to consider whether any adjustments are required to the way it works.

More information is available at www.harrow.gov.uk/grants2move

3. 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.

Response:

Impact of RTB sales on the HRA

Cabinet received a report in June 2013 that set out the 30-year business plan for the HRA. The business plan was supported by a draft Asset Management Strategy and an Affordable Housing strategy, and set out a 30-year forecast of the income and expenditure anticipated to occur within the HRA, based on an agreed set of assumptions.

The starting point for the business plan was the HRA budget and Medium Term Financial Strategy (MTFS) approved by Cabinet in February 2013, and the first four years of the plan mirrored the MTFS. Thereafter, a set of fairly prudent assumptions were used to project income and expenditure for the remainder of the 30-year period. The cash flows resulting from the projections indicated that the HRA was in a very sound position and was forecast to generate significant balances over the life of the business plan.

The business plan was intended to form a framework within which future budgets would be set, so for the purposes of producing a draft budget and

MTFS the assumptions used were largely in line with the forecasts contained within the business plan approved in June. Some minor variations have resulted from additional Right-to-Buy sales above the levels previously assumed (resulting from significantly increased discounts), changes in inflation used to calculate rent increases, and from pressures within some of the budgets. This is to be expected, as the business plan should be a guide to future budgets, and must retain the ability to flex to meet changing requirements.

The draft HRA Budget and MTFS presented to Cabinet in December continues to reflect the significantly improved position reported in last year's budget as a result of HRA reform. Since that time, however, it has become apparent that RTB sales are likely to exceed the increased numbers we had previously assumed, and sales are now forecast to be in the region of 30 units in 2013-14, with the potential for the number of sales to increase still further in subsequent years. We are therefore currently re-forecasting the HRA outturn and budget to reflect these increases, and will need to present a revised set of budgets and MTFS estimates to Cabinet in February 2014.

As has been indicated previously, RTB remains one of the more significant risk areas for the self-financing HRA, and whilst we do not envisage any short-term viability issues as a result of increased RTB sales, over the longer term we must ensure that cost levels remain in line with stock, and therefore income, levels. This will require both a focus on reviewing operating costs and a consideration of how best to use the receipts from sales to re-provide affordable housing for our residents and tenants.

Active Asset Management:

Now that the Asset Management team are operating effectively within housing, and customer satisfaction with both responsive repairs and the improvement programme is improving, we are in a position to move towards an active asset management approach. This approach is developing and will include:

- Extending the planning process for the capital programme so that by March 2014 we will have a detailed and validated 4 year investment programme. As well as enabling us to plan delivery more effectively we will be in a better position to consult in a more timely way and have opportunities to achieve further procurement savings.

- Moving towards an area based approach to delivery of the programme, so that we can map out where improvements are due throughout the 4 years and where practical undertake a number of improvements together. This approach minimises disruption to tenants and offers further opportunities for both procurement savings and attracting more local companies to tender (as individual contracts may be smaller area based refurbishments, rather than larger contracts for individual elements pepper potted across the borough)

- Undertaking options appraisals on any homes where extensive repairs and refurbishments are needed, or do not meet the current demand for the stock to determine whether disposal of the property, and re-investment of the receipt in alternative housing supply may be a better solution. To date 3 options appraisals have been completed ranging from a small block of flats where subsidence is an issue, to a 200 year old house converted to 3 flats that is in a poor state of repair.
- In moving towards an options appraisal-based investment approach, it would seem sensible for there to be a corporate approach towards the potential disposal of property under the Council's (corporate) disposal policy in the context of active asset management, e.g. it make be more beneficial overall for Housing to acquire non-housing land and/or properties than they be disposed of on the open market.

In keeping with the Active Asset Management approach, Housing are currently undertaking regeneration option appraisals in respect of a number of our estates to determine the long-term viability of these estates and whether there would be potential to either build additional properties within the estates or to regenerate all or part of them to provide additional housing. One of the key factors will be the financial viability of any proposal, although it may be beneficial to consider a number of schemes together with a view to assessing viability at a higher level than just one estate.

4. 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. 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 within London and elsewhere that are developing shared service options

Response:

It is fair to say that this is an area where not much success has been achieved to date, although Help2Let is a notable exception, with more authorities now becoming interested in this service.

Efforts have been made in the past to investigate some shared service approaches, e.g. in respect of leasehold services at a West-London level, but there has been a lack of appetite from potential partners to progress potential solutions. To an extent this has been low on the list of priorities for housing as a service over recent years, largely as a result of the need for the Housing Ambition Plan to be more internally-focused. This has been necessary both to deliver the necessary service improvements in response to the HQN review (HAP 1 & 2) and to structure the service to deliver the improvements possible as a result of HRA reform and meet the challenges of localism, changing legislation and welfare reform (HAP 3 & 4)

Planning is now underway for HAP 5, and for this plan, the focus is much more external, with selling our services and commercialisation being key themes throughout the plan. Areas within the plan include:

- Marketing services to Private Landlords - Private landlords buy increased range of services from Department and increase in those using Help2Rent
- Marketing services to other Registered Providers – Housing department acts as managing agent for Housing Associations within Borough
- Maximising income by:
    - Improve income collection from leaseholders
    - Effectively recharging repairs
    - Full-cost recovery of service charges where possible
- Meeting housing need and long term viability of HRA with reducing stock levels from RTB by developing new housing stock both within and outside of the HRA, leading to savings in the General Fund

5. The Standing Review was informed 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.

   Response:

   At its meeting in February 2013, Cabinet approved an increase in the property values used for rent-setting purposes by 7.5% reflect the significant levels of investment in the stock since the time of the original valuations in 2001. This was a one-off increase in the valuation to effectively re-base the property element of the target rent calculation.

The property element of the target rent calculation equates to approximately 30% of the calculated rent, with the remainder being based largely on local average earnings and the number of bedrooms. The impact of the 7.5% increase in property values was therefore an increase in average target rents of 2.85% (or approximately £3 per week).

The new target rents were used to calculate 2013-14 rent increase and are assumed to be used to calculate the increase for 2014-15, in line with the current council rent-setting policy. In broad terms, this means that after the 2014-15 increase the HRA should be collecting approximately £2 per property per week more as a result of the increased target rents than would have otherwise been the case had the property values not been increased.

The Government is now consulting on proposals to change national rent policy from 2015-16 onwards, which means that we may not be able to complete the process of converging actual rents with target rents. This would mean that income within the HRA would be less than had previously been assumed for business planning purposes, although the HRA is still forecast to generate significant surpluses over the life of the business plan. We have responded to the consultation highlighting the potential for a fairly significant loss in income if national rent policy is changed in line with the Government's proposals, and pointing out that the calculation of debt for self-financing purposes assumed completion of rent convergence.

In response to the rent policy proposals, many other councils are only now considering increasing property values for target rent purposes as a possible means to recoup some of the income likely to be lost if the policy is implemented. The fact we have already done this, and will have had the benefit of two years of additional income by the time rent policy changes, means that we are in a much better place than we would otherwise have been, and in a much better place to cushion the impact of the changes than many other Councils.

6. 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.

Response:

The Welfare Reform Governance structure, which includes the multi-agency Community Reference Group, is monitoring the impact of the welfare reforms which includes the levels of debt across the Council. One of the key difficulties we are experiencing is establishing how much of any given debt can be said to have arisen as a direct result of benefit changes due to welfare reform, and there is inevitably a degree of subjectivity in any calculation, particularly for those tenants already in rent arrears.

Welfare Reform Awareness sessions have been carried out, both internally within the Council, and externally with the Voluntary Sector, Community Groups, GPs and Head teachers of local schools. The Council is hoping that, through some of this activity, it will be able to gain feedback on the impacts of the changes and the level of debt within the community.

This information sharing will enable the Council and its partners to understand whether the mitigations that are being put in place are effective and whether any further mitigations need to be put in place. Continuous partnership working will enable this activity to be taken forward effectively.

The Housing Service is also represented on the West London Welfare Reform Group which is a forum specifically established to share lessons learnt, processes and procedures and good practice, and in addition has extended a project that funds the CAB to target households identified by the service as in need of priority advice and support.

The draft Vulnerability Criteria was updated to reflect the views of Councillors at Overview and Scrutiny Committee on the 4th June 2013, and processes have been put in place to ensure that, where possible, vulnerability is identified at an early stage. Services such as Children's (younger people leaving care and Families First), Concessionary Travel, Housing and Adult Social Care, are working with the Council Tax Recovery Service to share vulnerability information. This has enabled services to put a flag (person alert) on their system prompting identification of vulnerability at key points in the collection process.

All services have agreed that checkpoints will be put in place at key stages of their debt collection processes to enable the relevant officer to identify that the person may be vulnerable and then consider the case before action is taken.

To enable the vulnerability information to be shared effectively across the Council it was necessary to develop a Data Sharing Agreement and put in place processes to share the information on a regular basis.