

**OVERVIEW AND SCRUTINY COMMITTEE
REPORT OF SCRUTINY CHALLENGE PANEL
HOUSING REVENUE ACCOUNT**

November 2009

MEMBERS OF THE CHALLENGE PANEL:

Councillor Mark Versallion
Councillor Eileen Kinnear
Councillor Graham Henson
Councillor Anthony Seymour

CONTENTS

	Page
CHAIRMAN'S INTRODUCTION	2
BACKGROUND	3
RECOMMENDATIONS	4
THE HRA – AN OVERVIEW	5
KEY OBSERVATIONS ARISING FROM THE CHALLENGE PANEL	9
CONCLUSION	12

APPENDICES

Appendix A: RESPONSE TO DCLG CONSULTATION	13
Appendix B: HRA CHALLENGE PANEL SCOPE	18
Appendix C: BACKGROUND PAPERS & FURTHER INFORMATION	21

CHAIRMAN'S INTRODUCTION

On behalf of Harrow's scrutiny function I am pleased to have had the opportunity to chair this Housing Revenue Accounts (HRA) challenge panel and provide a scrutiny perspective to the council's response to the Department for Communities and Local Government (DCLG) consultation.

The proposals to dismantle the current housing financing system and details for reform contained in the DCLG consultation document was the main focus of the challenge panel. The panel, which took place on 22 October 2009, also addressed the current implications of the HRA system on Harrow and the possible implications on the borough if the HRA negative subsidy is abolished.

The proposals put forward could potentially present a fundamental change in the relationship between central and local government and the funding of local authority housing. For Harrow, such a change has the potential to allow new options for the investment of capital and give the authority greater control in the management of our assets.

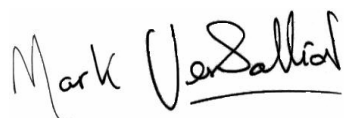
The panel is grateful for the attendance and contributions from:

- Councillor Barry Macleod-Cullinane, Adults and Housing Portfolio Holder
- Lynne Pennington, Interim Divisional Director of Housing Services
- Paul Mullins, Interim Head of Asset Management
- Donna Edwards, Service Manager - Directorate Finance Lead

The review group is generally in favour of the government's proposals but we raise a note of caution and a request for further detail around the proposals before we can whole-heartedly endorse the proposals.

Despite the Government's consultation deadline of 27 October 2009 the panel was able to work within this tight deadline, providing an effective setting in which to address the Government's proposals.

We welcome the opportunity to contribute further and engage with the portfolio holder, officers, our tenants and other relevant stakeholders on council housing finance in the future. The details of our discussion, and our observations and recommendations are included in the following pages.



Councillor Mark Versallion, Chairman of HRA Challenge Panel

BACKGROUND

The challenge panel on the HRA came about following a meeting of the Performance and Finance Overview and Scrutiny Sub Committee on 20 July 2009. At this meeting the portfolio holder for Adults and Housing provided a briefing on the HRA.

The committee learned that the HRA had seen improvements with the number of repairs, void properties and costs being reduced. However, it was also reported that, the HRA negative subsidy accounted for the loss of approximately £6.5 million from the budget this year with the amount being paid to other authorities in England.

The emerging proposals for reform to the system at a national level were also discussed. If changes were made to the policy and the HRA negative subsidy was abolished, it was expected that the council could possibly see the effects by the 2011/12 financial year.

Following discussions it was decided that a challenge panel should be carried out by elected members to address the key elements of the proposed changes to the HRA negative subsidy system and the possible implications from a reform. The scope for the challenge panel is attached in Appendix B.

The challenge panel took place on 22 October 2009 as a round-table discussion involving scrutiny councillors, key officers and the portfolio holder for Adults and Housing. At this meeting the panel reviewed detailed information on the current HRA system in place, the London Council's point of view on the proposed reforms and details of the Harrow perspective including figures detailing the increasing levels of contribution from Harrow to the HRA negative subsidy system. The panel also received a briefing from the portfolio holder for Adults and Housing on his perspective on the government's proposals.

The panel raised a number of key questions and comments and addressed the 17 questions detailed in the consultation document. The panel's findings and observations culminated in a joint response with the portfolio holder for Adults and Housing to the DCLG, detailed in Appendix A.

The pages that follow provide further information on the issues considered.

RECOMMENDATIONS

The HRA challenge panel recommends that:

- i. the concerns and findings of the challenge panel are fed into the overall council response to the DCLG consultation in time to meet the deadline on 27 October 2009
- ii. (see Appendix A).
- iii. the HRA challenge panel report is referred to the Overview and Scrutiny Committee
- iv. the HRA Review challenge panel recommendations are referred to the Cabinet for consideration
- v. the Overview and Scrutiny committee monitor the developments in relation to the reform of the HRA system to ensure the best options are developed for the council as further details emerge.

THE HRA – AN OVERVIEW

The HRA is a ring-fenced account within the general fund; credits and debits are governed by statute and the ring-fence is operated within Government guidance and professional accountancy protocols. One purpose of introducing the HRA ring fence policy in 1989 was to create a more coherent 'landlord account'. It ensures that rent levels cannot be subsidised by increases in the council tax and that rents cannot be increased in order to keep council tax levels down. (Reform of council housing finance Consultation, July 2009)

Local authorities with housing stock are currently required to record all income and expenditure in relation to their own housing stock in the HRA. Councils that transfer their entire housing stock are not required to maintain a HRA. The funding of council housing is ring-fenced within the HRA to avoid cross-subsidy between tenants, leaseholders and council tax payers.

The Government has traditionally deficit funded the building, purchase and operational cost of council housing through a notional HRA calculation whereby allowances for management and maintenance expenditure are given and the proceeds of a guideline rent are taken.

The HRA Negative Subsidy

The HRA negative subsidy system is the system whereby council housing revenue is redistributed nationally from those councils that are deemed to have surplus income to those councils that are deemed to not have enough. Estimated calculations of how much income and expenditure each authority should have is calculated by the Government. If spending is estimated as being more than assumed income, the Government then pays HRA subsidy to make up the deficit; where it is less, the local authority pays the surplus to the Government.

Although the calculations are notional, they are based on actual data such as stock numbers, interest rates and deprivation indices. This process is carried out on an annual basis. The HRA in a sense presents the idea that housing is a national service and that money from one area can be readily moved to another area of the country. The HRA also has negative implications on long-term planning for local authorities.

The pooling of HRA surpluses is highly controversial as it is perceived as unfair, volatile and obscures the link between rents paid and services provided locally. The HRA does not allow for long term planning. Three quarters of councils are paying the notional surplus into the system, in turn a quarter of those in the system are also beneficiaries and reliant on the system.

Harrow Council HRA negative subsidy contributions

Year	Money paid to central pool
2001-02	1,963
2002-03	2,987
2003-04	1,999
2004-05	3,395
2006-06	3,734
2006-07	4,658
2007-08	4,473
2008-09	6,729 (<i>yet to be signed off</i>)
2009-10	6,800 (<i>estimate</i>)
Total	36,738

The table above shows the rising trend in negative subsidy contributions from the council.

Background to the Consultation - The Government Review

Taking into consideration, lobbying and the calls for reform along with recognition that local authorities should manage their own assets, the Government started to explore how council house financing can accommodate variable needs across all local authorities in a more equitable way. Cambridge, Sheffield, Carrick, Warwick, Hounslow and Darlington councils (3 of which have set up ALMO's and 3 of which have retained their housing stock) were involved in piloting a new system in summer 2006. The consultancy firm Housing Quality Network, was appointed to undertake some business plan modelling on their behalf. The authorities produced model 30 year business plans based on a one-off settlement with central Government which would allow them to leave the HRA national system.

As part of the pilot councils could keep all their rental income raised. Councils that were expected to make operating surpluses under the current system would not pay these into the national pot and councils which were expected to have a revenue shortfall would also not receive any subsidies.

The pilot showed that self-financing could bring improvements in long term planning, efficiency and localised asset management. However, the pilot also highlighted that for one authority the level of existing debt they are starting from would be too high for the business plan to be really viable.

Following this, on 12 December 2007, Yvette Cooper, then Minister for Housing, announced a review of the HRA subsidy system to examine the case for a change to the current redistributive system:

'The purpose of the review is to ensure that we have a sustainable, long term system for financing council housing and that this system is consistent with wider housing policy, including the establishment of a regulator of social housing. The review will build on the work of the pilots we have conducted with six local authorities which looked at the costs and benefits of councils operating outside the Housing Revenue Account subsidy system...the self-financing model developed in the pilot exercise would fit with the aims of the review and, if it is consistent with these, how it could be implemented. (Reform of council housing finance Consultation, July 2009)

The review was jointly launched by the DCLG and the Treasury on 10 March 2008 and the consultation document covers a number of the emerging findings from the Government's review.

The DCLG Reform of Council Housing Finance Consultation

The main intention of the DCLG consultation on the HRA is to find a long term sustainable solution to the HRA. The proposals put forward could potentially present a fundamental change in the relationship between central Government and funding of local authority housing.

The consultation ran from 21 July 2009 until 27 October 2009. The consultation document proposes a self-financing alternative to the current system, removing the need to redistribute revenue nationally and an end to pooling of capital receipt. Councils will no longer be required to pay government different proportions of the receipts from right-to-buy sales and sales of other HRA assets.

The consultation document argues that long term planning could also be improved as councils will be free from the current annual funding decisions made as part of the negative subsidy system. Councils will be able to work within a more efficient and structured financial framework to manage their assets and be able to respond to local needs. In turn their responsibility and accountability to local tenants and residents will be increased. In view of the new ownership local authorities will have, the recently established Tenant Services Authority also play a significant role in ensuring local authorities are managing their assets effectively and offering value for money.

In summary, the reform to the system will involve:

- Costs, standards and rents based on the same system
- A requirement for local authorities to develop a 30 year business plan based on an updated stock survey
- All housing capital receipts to be retained locally
- Increase to Major Repairs Allowance

However, the self-financing system will require an adjustment of debt levels for most authorities. At present there is an overall £18 billion of housing debt with annual servicing costs of around £1.1 billion spread across the 202 councils in the system. The Government is proposing to allow councils to move to the new system in exchange for a one off re-allocation of debt between all the councils currently within the system. In essence, local authorities would be offered the opportunity to manage their own housing finances and retain 100% of its rental payments, though on the premise that they agree to take on debt.

The Government is proposing a one-off distribution of the debt to councils as the Government will no longer have the ability to pay the interest on this debt. The consultation document proposes that as the debt was built up by council housing debt, it should continue to be serviced from council rents.

The government is proposing the allocation of the debt between local authorities in proportion to the value of their stock, explaining:

'While reallocation of debt is likely to be contentious with debt-free and low debt authorities, those councils will already be supporting debt in other councils through the subsidy system and should be no worse off over time. Rather than indefinitely paying the interest on debt held

elsewhere under the current system, these councils would instead have debt that they could manage themselves. (Reform of council housing finance consultation, July 2009)

This is a key issue for consideration with regards to the reforms as some local authorities could be taking on higher debt, there is some level of assumption relating to ability of authorities to service debts based on the value of housing stock, future costs for management and maintenance and future rental income.

KEY OBSERVATIONS ARISING FROM THE CHALLENGE PANEL

The challenge panel opened with an exploration of the problems with the current system as detailed in the 'HRA an Overview' section and the implications for Harrow. The challenge panel's observations are summarised below:

General Proposals for Reform

- It was decided by all those in attendance that a one council response to the consultation was the best way forward in order to strengthen the case for Harrow.
- The challenge panel noted that a number of the proposals in the consultation document are too vague. However, although the proposals in the consultation document requires further detail and raise a number of questions, it was decided that the general response coming from the council would be positive one though with a note of caution.
- The proposals for change were welcomed in principle by the panel as Harrow is amongst the authorities required to contribute to the HRA negative subsidy. In 2008/09, it is anticipated that the council will pay out £6.8 million based on the annual determination from central government. Around £20 million overall comes out of the HRA every year and is allocated to managing stock, repairs, internal services and debt servicing.
- It was emphasised by officers that local authorities have been asking for change for a long time, and once the details are clarified, for Harrow it may be an opportunity not to be missed.

The Debt Issue

The issues surrounding the potential re-allocation of debt formed much of the deliberation and questioning during the challenge session.

- Questions were raised with regards to how much would be allocated to the council. This is yet to be determined, dependant on how the debt is allocated. The panel highlighted that the prevailing interest rate at any given time which is put on the debt level will also have implications.
- The potential costs of servicing the debt were highlighted by the panel. This can perhaps initially be manageable but should circumstances such as interest rates, the state of the economy and other external factors come to play, the capacity to service the debt could change.
- The council's current level of debt could potentially be doubled (based on retrospective calculations by London Councils) bringing Harrow's debt from a figure of around £50 billion to around £100 billion. In allocating the debt, the Government will look at management and maintenance costs along with rental income stream.

- A worst case scenario type of analysis should be carried out for Harrow in order to try and quantify the risks involved with the proposed self-financing model and re-allocation of debt in line with varying interest rates.
- It will be important to know whether the will be added to the debt we are currently servicing and whether there will be an impact on the public purse.
- The panel asserted that the level of debt and how we service and manage the debt for future management of the council's assets. The panel asserted that these uncertainties must be highlighted in our response to the consultation.

Major Repairs and Management & Maintenance Allowance

- The recognition by the Government that the Major Repair's Allowances and Management and Maintenance funds for Harrow has not been sufficient was commended by the panel.
- Harrow has been contributing to the HRA negative subsidy and so has been unable to invest in dwelling stock and the improvement of communal areas such as lifts and care takers services. In contrast, the council is on track achieve the decent homes standard in 2010 due to the efforts and resources that have been put into this which has been serviced by loans.
- It was very important to know whether the Government now had the right perception of the borough. This is because inaccurate assessments and perceptions has been the basis of the Governments previous decisions on housing finance. The Governments views were based on desk top analysis and not actual visits in the borough.
- A thorough stock survey should be carried out with provision for further regular surveys to ensure the correct perception of the borough is provided.
- Officers re-assured the panel that there has been recognition by the Government of a need to increase the amount for major repairs allowance and management and maintenance allowance which indicates means that an accurate view of the councils housing stock has now been formed. DCLG are also believed to have a positive view of Harrow in view of the fact that Harrow is on course to meet the decent homes standard.

Self Financing Benefits

Some discussions took place around what could be done with the increased investment within the confines of the self-financing model.

- The panel highlighted the need to develop a sustainable 30 year business plan with sufficient robust contingencies to be able to deliver a good service based on a revised stock survey.
- If council's are able to gain from the new model the council would be better able to service current debts and the slight surplus that will arise from increased inflation rates on rent could be used to invest further in the housing stock and maintain the current stock we own.

- It was also recognised that there is likely to be constraints with what we can do with any surplus retained and there is a possibility that the council may not end up with a huge surplus above the base level with the new self-financing model.
- It was recognised that the self-financing system could also potentially provide a clearer way to re-distribute finances and debt amongst authorities, carving out an equal playing field.
- The 30 year business plans could provide the opportunity for increased control and management, there is also the potential for increased transparency as tenants and local residents are unaware of the HRA and the subsidy that gets re-distributed throughout the country.

Additional comments that were made:

- The timescale for putting the proposals in place were discussed and due to the complexities of the changes proposed, primary legislation may be required. If the DCLG are unable to go ahead as planned due to the responses they get and the elections in May 2010 it could take up to two years for implementation as it is highly unlikely that this will be at the top of a new Government's agenda.
- The implications on a national scale were also touched on; the revision to the HRA negative subsidy system will clearly have negative implications on some authorities. There is potential impact on equalities, social inclusion and cohesion in relation to the proposals at varying levels across the country.
- There is a probability of a redistribution of costs between the HRA and the general fund, which will either increase or reduce the costs met by the general fund. Changes in the general fund costs will probably have an impact on the overall general fund budget, and thus on council tax setting. This also needs to be taken into account as further details surrounding proposals emerge.
- Prudential borrowing will continue as before.

The Council's Response to the DCLG Consultation

The second half of the challenge panel was focussed on directly answering the questions put forward in the DCLG's consultation document (see Appendix A). The panel concluded and agreed a positive response with areas of concern highlighted.

Should the council remain within the current HRA system, meeting our obligations could become increasingly challenging as expenditure generally exceeds income. In turn we need to ensure that we are able to service any extra debt as this could be worse than contributing to the HRA negative subsidy. Further information and details are key to taking the self financing model forward.

CONCLUSION

We are extremely grateful for the opportunity to have contributed to the DCLG consultation, working with the Cabinet Member for Adults and Housing and key officers. The challenge panels observations and concerns were included in the overall council response to the consultation to ensure that the council goes forward with the best options to support our tenants and manage our assets (see Appendix a).

The main issue that came out when addressing the consultation paper was the lack of detail as to how the debt re-settlement will be made to work or more precisely how the debt will be distributed amongst local authorities. The decisive question for councils is how much debt is each council's share of the national HRA debt and is it affordable whilst maintaining the stock in good condition and at what risk? If debt levels are too high, authorities self-financing plans will be hampered from the start. There needs to be robust consideration of risks as further details on the Governments proposals emerge.

A solution is better than no solution at all at a time of economic uncertainty and constraint in public finance and the Government's plans represent a milestone in the long running campaign to dismantle the HRA. Much debate lies ahead and whilst there is a need for further detail around the proposals, the momentum must be maintained for change to take place. In turn, the impending general election also poses a challenge in terms of timing especially if primary legislation is required.

All proposals to rationalise the HRA system are strongly welcome in principle, however we will continue to keep a watching brief as further details emerge.

We look forward to offering further support in the future in relation to any proposals around reforming the HRA system.

**HRA Review Challenge Panel
November 2009**

APPENDIX A

RESPONSE TO DCLG CONSULTATION

27th October 2009

Review of Council Housing Finance
Communities and Local Government
Zone 1/J9
Eland House
Bressenden Place
London
SW1E 5DU

Dear Sirs

Reform of council housing finance – consultation response

As a contributor to the national subsidy system, Harrow Council welcomes the Government's proposals to dismantle the existing housing finance system, particularly with the growing number of authorities in negative subsidy and as recognised by the then Minister Nick Raynsford in parliamentary questions in July 1997 [from Hansard, 23 Jul 1997: Column: 585-6]. However, further clarity is required around what the proposals will mean for Harrow's tenants, particularly issues relating to debt reallocation. Further details and modelling exercises need to be carried out to assist Harrow in determining how the proposed changes will affect the borough, so as to maximise the potential benefits and minimise the scope for adverse effects.

Harrow welcomes the Government's recognition that the management & maintenance and MRA allowances that the borough receives are under-funded; the proposals to uplift them are also welcomed. However, the position regarding aids and adaptations remains unclear and requires further detail. Again, clarity on the implications for individual authorities needs to be made clear; proposals for future inflationary increases and the need to ensure allowances reflect actual costs are also critical. As in all cases there are likely to be gainers and losers and Harrow would need to consider all aspects of this consultation and the details to follow to ensure the overall position of the authority can be quantified to ensure that we will gain positively from self-financing and be able to manage tenant's expectations.

Above all, the new system must be understandable to all. It is important that any surplus income generated by rent levels is managed locally. Clarity around national surpluses and how these can be reinvested is critical, and must form part of the HRA ring-fence.

Given the Tenant Services Authority regulation, a common framework for council housing and housing associations, including consistent application of the landlord function and the HRA ring-fence would be helpful.

The Harrow response is formed of a joint contribution from the Cabinet Member for Adults and Housing and cross party contribution from Overview and Scrutiny. The details of the consultation were considered by Overview and Scrutiny at a challenge panel that took place

on 22nd October 2009 where councillors addressed the key aspects of the consultation document and went through the questions of the consultation. Overview and Scrutiny welcome's the changes to the HRA system in general, however, they are keen to know the finer details of the proposals put forward especially in relation to debt re-allocation. The panel members felt that clarity and further information over how the potential surpluses can be re-invested is also essential. The panel members were also keen to ensure that future decisions and assessments for example in relation to housing stock are made on an accurate appraisal of the borough.

To conclude, self-financing will provide the opportunity for local authorities to run housing services as a long-term business model in line with local Registered Social Landlords. This will provide the opportunity for real local ownership. However, DCLG first has to distribute the national debt on some equitable basis – this is a key consideration for all local authorities.

Once the new levels of debt to be funded [allocated] are known, a revised 30 year business plan can then be drawn up. This would need to be based on stock transfer value both to ensure longer term viability and to reassure Government about national borrowing levels.

A reform of council housing finance should not base any assumptions on the current notional subsidy system and clear agreement in relation to future treatment of allowances is required.

Harrow believes this consultation is a step in the right direction but given the complexity and longer term impact of the proposals, more information is required before any final decisions are taken.

We welcome the opportunity to make further contributions to this exercise and to work with DCLG and other local authorities to progress these issues and move towards an efficient self-financing model.

Appendix 1, as attached, details Harrow's response to the individual consultation questions.

Yours faithfully

Paul Najsarek
Corporate Director Adults & Housing



Councillor Macleod-Cullinane
Portfolio Holder, Adults & Housing



Councillor Versallion
Chairman, Performance &
Finance Scrutiny sub committee

Appendix 1

Core & Non Core Services

Question 1 & 2

In principle, we agree with the ring fencing of the Housing Revenue Account [HRA] as it assists tenants in clarifying accountability for decision-making and provides greater transparency as to where their money is spent.

However, more clarity and guidance on ring fencing would help councils to identify the categories of services and the funding streams for each. Furthermore, it would help distinguish between grey areas and whether they should fall, under General Fund or the HRA. Further clarification over apportionment of overheads currently borne by HRA would be helpful. It is understood that a review of work on the ring-fence has been undertaken and publication of this research would assist in moving this discussion forward.

Impact of any changes in current practice needs to be identified and whether the effects could be particularly detrimental to either the HRA or General Fund should be highlighted.

Standards and Funding

Question 3 & 4

The MRA consultation document, in particular the acknowledgement that allowances in Harrow are under funded, is welcomed. Harrow is identified as an authority that would receive additional resources under the proposals. This is supported by local evidence of increased borrowing in the region of £9m to achieve Decent Homes Standard by 2010. Usable capital receipts expected are minimal at £0.25m.

Harrow is concerned that assumptions behind the additional figures suggest that the increase in resources will not be planned until years 21-30 [figure 8.1 MRA review refers], which assumes additional resources are not required to meet decent homes, but the increase in costs of main elements. In Harrow additional borrowing has been required to meet the costs of Decent Homes in the absence of increased allowances.

Works such as lifts and common areas, heating and insulation should be covered by separate capital grants.

Increased funding for existing standard should be addressed first as it has impact on individual authorities' works and base funding. Review of the MRA and additional information to support modelling of the impact must be considered alongside this review as a fundamental part of the longer term viability of the authority's HRA.

Leaseholders

Question 5

Funding of major repairs can be critical for leaseholders.

The concept of establishing sinking funds for planning of works and leaseholder budgeting is a good one. This would allow planning of cash flow from the leaseholder perspective but also enable the council to undertake works without undue delays or uncertainty over recovery from leaseholders. It may also reduce the time presently taken over consultation.

The use of a sinking fund may however prove challenging to implement given leaseholders may still be making loan repayments on recent charges. Whilst acknowledged as good practice, a two tier system could result as lease agreements for existing leaseholders may be

difficult to vary and so the application may only be possible for new leaseholders, leading to increased administration [and cost] for the council.

If sinking funds are established, when leaseholders sell off they cannot have access to any balance on their share of sinking funds. This may deter them from agreeing to participate.

In principle the concept of setting up a sinking fund is a good one; however in reality it is likely to be practicable only for newly-built properties. Thus it is not really viable for Harrow as the borough does not have any such new stock. In future, however, this option may be open to us and all leaseholders will have to be in agreement.

Debt

Question 6, 7 & 8

These questions are hugely complex and technical, and are critical to the proposal. It would help if a series of workshops could be held to assist local authorities in understanding the assumptions and implications for their organisation.

Broadly, the methodology in 4.22-4.25 sounds acceptable for the calculation of opening debt, however, until the individual authority position is known it is not possible to commit to a definite view on the proposals or predict with any confidence the implications of debt at a local level.

Before accepting distribution of debt, the council would need to ensure this can be serviced. If distribution is based on valuation (on uniform basis across all councils) further information is required on how the value of the stock would be calculated. This would result in the need to update the 30 year business plan, including agreed assumptions around future increases in management and repair costs, to ensure any additional debt can be serviced. The costs of stock condition surveys and updating business plans are considerable and a financial pressure not anticipated by Harrow. If any requirement of the outcome of the review is that a stock survey should be commissioned, can we be assured that one-off grant funding is made to cover the cost of this?

The document makes reference to a significant backlog of repairs and revised allowances. The revised allowances must be sufficient to cover the actual cost of repairs, as if the allowances remain lower than cost, this will reduce the ability to service (possibly increased) loan costs. The assumption in the allocation of debt is that any additional debt is financed rather than a re-financing of the new debt portfolio.

Costs associated with debt re-scheduling are passed to the HRA and covered by subsidy. The implications of future debt scheduling need further clarity from the onset. The possible implications are that councils may end up with additional costs in both the general fund and HRA. Due to changes in CRI and premia payable on early redemption, clarity is required as to where these costs should be funded.

We would want to ensure that any debt can be serviced sufficiently in terms of sustaining the HRA over the 30 year business plan. A stock condition survey should be carried out every 5 years as this will be critical in ensuring that a clear picture of the value of stock is presented.

Question 9

Depending on whether new debt taken on borrowing has interest rates above or below the Consolidated Rate of Interest, the effect could have a positive or negative impact for the General Fund unless a decision is taken to handle the reallocated debt differently. Clearly a self-financing model for the HRA would require new HRA debt to be accounted for within the

HRA to ensure decision-making is robust and to avoid inequitable impacts on the General Fund.

Question 10

The principles of relating borrowing levels to the income stream generated by rents fits with the prudential borrowing framework, the key issue will be the level of opening debt attributed to each authority and its ability to service this debt. Over the life of the business plan, local needs and decisions will be made [and which may vary to the original business plan] and the system needs to be suitably flexible to deal with such changes, subject to the ability to fund the changes. The overall business plan also needs to be consulted on with tenants and councillors as the way that the income generated is re-invested is key to the local area.

Question 11

Given the principles of the HRA ring fence, any uncommitted income generated should be retained within the HRA. This will enable decisions to be made locally, thus reflecting local needs and priorities. Clarity is also required as to where the income generated can be spent.

Capital Receipts

Questions 12, 13 and 14

Currently for Harrow Council, the sums involved are not significant enough to have impact on longer term plans, e.g. new build. The assumption is that Right to Buy [RTB] discounts will not be increased from present levels, which are currently very low.

The use of capital receipts should be a local landlord decision as to whether to invest in new stock or existing or both [or even to repay existing debt] based on local need, agreed with tenants and based on financial ability afforded by the 30 year business plan.

As a general rule, the larger receipts will arise where re-investment is proportionately more expensive. The Government should not assume that it will not need to invest and future identified need should be met directly from central government as grant assistance.

Equality impact assessments

Questions 15, 16, 17

The Council will continue to set priorities and policies through the democratic process. In this context, further clarity is required on the implications for aids and adaptations funding. Currently, funding for private sector tenants is funded by grants but for council tenants by borrowing and funded by rents. To ensure equality, we would advocate a more consistent approach so that the costs for council tenants are also met by grant funding. This can only be achieved if the process is considered as part of this review.

APPENDIX B

HRA REVIEW CHALLENGE PANEL - SCOPE

HOUSING REVENUE ACCOUNTS CHALLENGE PANEL – DRAFT SCOPE

Thursday 22 October

1	SUBJECT	Housing Revenue Account (HRA)
2	COMMITTEE	Overview and Scrutiny Committee
3	REVIEW GROUP	Councillor Brian Gate Councillor Graham Henson Councillor Eileen Kinnear Councillor Anthony Seymour Councillor Mark Versallion
4	<u>AIMS/ OBJECTIVES/ OUTCOMES</u>	<ol style="list-style-type: none"> 1. To examine the HRA negative subsidy in Harrow Council. 2. To address the possible implications if the HRA negative subsidy is abolished and the impact on Harrow. 3. To contribute to the Department for Communities and Local Government's (DCLG) review of council housing finance and rents policy addressing the government's preferred option for the future of council housing finance by 27 October 2009. 4. To provide a view point and contribution to the consultation from elected members on the issues and concerns relating to the way HRA . 5. To provide recommendations on the suggested way forward
5	MEASURES OF SUCCESS OF REVIEW	<ol style="list-style-type: none"> 1. Recommendations and constructive contribution towards the current debate on HRA. 2. Providing a distinctive Harrow, member led contribution to the issue of the HRA.
6	SCOPE	To address the potential benefits of the HRA negative subsidy being abolished.

		<p>To examine how the approximate additional £6.5 million which is lost, could provide Harrow with new options for the investment of capital.</p> <p>To provide a Harrow perspective on the DCLG's consultation.</p>
7	SERVICE PRIORITIES (Corporate/Dept)	Build Stronger Communities
8	REVIEW SPONSOR	Paul Najsarek, Corporate Director - Adults & Housing
9	ACCOUNTABLE MANAGER	Lynne Margetts, Service Manager, Scrutiny
10	SUPPORT OFFICER	Fola Beckley
11	ADMINISTRATIVE SUPPORT	Fola Beckley
12	OTHER INPUT	Portfolio Holder for Council officers
13	METHODOLOGY	<p><i>Challenge panel</i></p> <p>A single "challenge panel" meeting bringing together a number of stakeholders, including the Council and user groups.</p> <p>The challenge panel would be held as a public meeting. Members of the public would be able to attend and make comments but only at the discretion of the Chairman.</p>
14	FINANCIAL IMPLICATIONS	The Financial Implications are currently unquantifiable, once the final proposals and details are presented, it will then be easier to do so. The proposals and changes are likely to have a significant implication.
15	EQUALITY IMPLICATIONS	<p>The HRA negative subsidy in its current form has major implications on equity for all authorities including those that are beneficiaries and those that are required to pay a surplus.</p> <p>The proposed plans to revise the HRA negative subsidy system to a self-financing system is likely to have further equalities implications in respect of debt re-allocation, rental income and achieving the decent homes standard.</p>
16	LEGAL IMPLICATIONS	The Government has indicated that primary legislations may be required to implement the proposed debt re-allocation should there be objections to taking it on.
17	ASSUMPTIONS/ CONSTRAINTS	Constraints – the nature of the review, as a challenge panel, would mean that a more wide-ranging discussion with the public at large would not be possible. The scope reflects this.
18	TIMESCALE	The challenge panel is being held on 22 October 2009 with a view to responding to the government's consultation in time for

		the deadline on 27 October 2009. A report on the challenge panel should be reported to Overview and Scrutiny in November/ December.
19	RESOURCE COMMITMENTS	Officer time only.
20	REPORT AUTHOR	Challenge panel, with scrutiny officer
21	SCRUTINY PRINCIPLES	Have been considered in the drafting of the scope. The scope reflects all the principles as agreed. The scope meets the feasibility criteria used to assess feasibility of scrutiny projects and is likely to deliver meaningful change.
22	REPORTING ARRANGEMENTS	Outline of formal reporting process: To Portfolio Holder [] When..... To CMT [] When..... To Cabinet [] When.....
23	MONITORING ARRANGEMENTS	Standard six month reporting cycle.

APPENDIX C

BACKGROUND PAPERS

Performance and Finance Scrutiny Sub-Committee, 20 July 2009

<http://www.harrow.gov.uk/www2/ieListDocuments.aspx?CId=817&MId=4700&J=2>

DCLG Reform of council housing finance: Consultation, July 2009

<http://www.communities.gov.uk/publications/housing/councilhousingconsultation>

CIPFA response to HRA Subsidy Determinations consultation, 30 September 2008

http://www.cipfa.org.uk/pt/pt_details_r.cfm?print=yes&news_ID=59015

Inside Housing, 18 September 2009

<http://www.insidehousing.co.uk/story.aspx?storycode=6506425#>

Public Finance, 2 July 2009

<http://www.publicfinance.co.uk/news/2009/07/housing-revenue-account-finally-to-beabolished/>

Further Information

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