

REPORT FOR: OVERVIEW AND SCRUTINY COMMITTEE

Date:	3 rd April 2012
Subject:	Standing Review of the Budget – Quarterly Report
Responsible Officer:	Alex Dewsnap, Divisional Director, Partnership Development and Performance
Scrutiny Lead Member area:	Cllr Jerry Miles, Policy Lead Member, Corporate Effectiveness Cllr Tony Ferrari, Performance Lead Member, Corporate Effectiveness
Exempt:	No
Enclosures:	None

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

Section 2 – Report

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

The review was established at the end of 2011 and has met five times.

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. In this regard, the group has identified a number of key strategic issues which it wishes to consider:

- Management and strategic use of the council's capital budget
- Self financing of the Housing Revenue Account
- Implications of the Business Rate Retention Scheme
- Management of major contract renewal
- Implications of the localisation of Council Tax Benefit

The initial focus of the group has been on the management and strategic use of capital and self financing arrangements for the Housing Revenue Account.

Management and Strategic Use of Capital

The review group considers that the capital budget has not in recent years been considered with the same rigour in terms of management as the revenue budget. It has noted with some concern that until recently there was little attention paid to the allocation of capital resources and the longer term implications of capital spend. As such, the group has raised a number of issues with the Interim Corporate Director of Finance and has been reassured with regard to her more vigilant approach to the allocation and management of capital resources, in particular via the capital forum.

The group has also decided to consider how the council uses capital funds to deliver its strategic objectives and has agreed to undertake a specific piece of work in this regard. Over the coming months, members of the review group will visit a number of other local authorities (including Newham, Hackney and Wandsworth) to discuss with them how they have used capital funding to support the overall regeneration of their boroughs. This information will then be discussed with council officers to consider what Harrow might learn from other authorities' experience and practice.

A specific report covering the review group's consideration of capital management and use will be submitted to the Overview and Scrutiny committee and Cabinet in the summer or early autumn.

Housing Revenue Account Self Financing

In March 2012, housing debt and responsibility for all social housing revenue transferred to local authorities. This is a major achievement reflecting cross-party consensus on the need for change in the HRA system going back to when the problem of the HRA's "negative subsidy" was formally identified by Nick Raynsford, the then local government minister, in Parliament in summer 1997. After years of extensive lobbying on behalf of local authorities, change is finally happening.

The HRA subsidy system saw all social housing properties assessed as to their "housing need", i.e. the level of maintenance and investment required to bring them up to standard, with a transfer from those authorities with lower needs to those authorities with higher needs. Over time, more and more authorities became "negative subsidy" boroughs, transferring a growing proportion of their tenants' rent money to other parts of the country. Harrow has long been a "negative subsidy" borough; it loses approximately £7m or 25% of its collected rents to other authorities. Further, some 20% of the subsidy collected is not transferred to other authorities to improve housing stock but is retained, instead, by the Treasury. The amount collected by the Treasury has been steadily rising.

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 become a business – it will own its property and will retain all revenue generated by this property base. (However, there is concern over Right to Buy receipts and other capital disposals as Treasury is demanding some share of these; local government is lobbying for all receipts to be retained locally otherwise it means a tax or charge by Treasury on tenants' rents will continue.) In order to do this, all local authorities are required to 'buy back' their housing debt from the Treasury funded through a loan from the Public Work Loans Board – for Harrow this means 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+.)

The group is concerned about the longevity of this debt and whilst being generally reassured with regard to the policy change, wishes to investigate whether the option of a 50-year loan represents the best deal for the authority and for tenants and residents. With this in mind, and in light of the fact that Harrow has one of the lowest social housing stocks in London, the group is approaching a number of other authorities who have divested their social housing stock to investigate whether this is a potential option for the council.

The group also wishes to consider the policy proposals which underpin the council's approach to self financing – the 30-year housing strategy, the rent strategy and the scenario modelling through which the decision to take the 50-year loan has been decided upon – to consider whether the decisions taken now are sustainable over the longer term.

Consideration of these issues will take place during May/June and a formal report outlining the group's findings in this regard will be submitted to the Overview and Scrutiny committee and Cabinet in the summer for consideration alongside the 30-year housing strategy.

Other reports and workstreams

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