NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

POLICY DEVELOPMENT GROUP – 12 MARCH 2014

Title of report	**CALL-IN OF CABINET DECISION OF 4 MARCH 2014 ENTITLED 'ADDITIONAL COSTS OF THE DECENT HOMES PROGRAMME 2014/15'**
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Purpose of report	To provide more information to Policy Development Group on the matters which have been raised through the call-in process.
Council Priorities	Value for Money
Implications:	
Financial/Staff	The implications of the decision are covered in the report
Link to relevant CAT	Not applicable
Risk Management	The risks associated with the decision are covered in the report
Equalities Impact Assessment	The implications of the decision are covered in the report
Human Rights	Not applicable
Transformational Government	Not applicable

Comments of Head of Paid Service	The report is satisfactory
Comments of Section 151 Officer	The report is satisfactory
Comments of Monitoring Officer	On the advice of external solicitors, the report is satisfactory
Consultees	Housing Revenue Account Business Plan Project Board
Background papers	None
Recommendations	**POLICY DEVELOPMENT GROUP CONSIDERS THE REPORT AND AGREES ONE OF THE FOLLOWING OPTIONS:** **A) NO FURTHER ACTION BE TAKEN; OR** **B) CABINET SHOULD BE ASKED TO RECONSIDER ITS DECISION IN THE LIGHT OF COMMENTS FROM POLICY DEVELOPMENT GROUP; OR** **C) THE REPORT AND COMMENTS OF POLICY DEVELOPMENT GROUP ARE CONSIDERED BY FULL COUNCIL BEFORE REFERRAL BACK TO CABINET.**

1.0 BACKGROUND

1.1 Members will be aware that Cabinet considered a report on 3 March 2014 entitled "Additional Costs of the Decent Homes Improvement Programme 2014/15". A copy of the report which was considered by Cabinet is attached as Appendix 1 to this report.

1.2 Cabinet resolved at that meeting to approve the recommendations in the report. A copy of the draft minutes is attached as Appendix 2. On 5 March 2014, the Monitoring Officer received notice from a number of Councillors that they wished to call-in the decision of Cabinet for scrutiny.

1.3 The Monitoring Officer confirms that the constitutional requirements for call-in of a decision have been met.

1.4 The grounds for calling-in the decision are as follows:

1 Whether the accepted definition of value for money can reasonably be applied to the allocation of an additional £1.6 million to the 2014/15 Decent Homes Programme of Improvements over and above the draft budget provision, arising from recommendations 1 & 2.

2 We want to examine in detail whether this substantial additional allocation satisfies the requirements of proportionality in comparison to the overall budget, the resources available to the Council and to the previous years' outturn within this contract.

3 In light of the fact that these additional costs only came to light towards the end of the contract, we feel that additional advice is required from officers as to what controls and monitoring on costs were in place, and whether these were sufficiently robust. Included in this would be consideration as to whether the original aims of the project were clear enough to achieve the desired outcome of completing within budget. We would also wish to question whether any options other than those listed in paragraph 3.6 were considered.

4 In addition we would like to consider recommendation 3 in the report, in order to ensure the options proposed and the reasons for this further funding request are sufficiently explained.

This report therefore seeks to address these grounds and also explains the process of call-in to members.

1.5 The Director of Services, Head of Housing, and the Repairs and Investment Team Manager will attend the meeting of Policy Development Group to respond to questions from members in relation to the call-in.

2.0 CALL – IN GROUND 1

2.1 The first call-in issue is "Whether the accepted definition of value for money can reasonably be applied to the allocation of an additional £1.6 million to the 2014/15 Decent Homes Programme of Improvements over and above the draft budget provision, arising from recommendations 1 & 2." The following sections of this report will explain how the contractors were chosen to complete this work, how the draft budget was established, and the pricing process that is a condition of the five year Term Partnering Contract (TPC) we have with Kier Services and Lovell Partnerships, who are known as our service providers under the terms of the contract.

2.2 When letting the contract to complete the Decent Homes Improvement Programme (DHIP) the decision was taken by Cabinet to commission two contractors for a five year term using a TPC approach. The contract procurement process used an estimated overall contract value over five years of £35 million, which included both the Decent Homes programme (Homes and Communities Agency grant funding and our own resources) and the two subsequent years. The contract value was estimated by using the projected Housing Capital Programme budget as detailed in the Housing Revenue Account (HRA) Business Plan. Use of this figure represented no guarantee of work to this volume for the service providers bidding, but is an illustration of the likely level of work, to allow them to complete a tender submission.

2.3 The draft budget for the DHIP and the two subsequent years was established as part of our preparations for the implementation of HRA Reform in 2011/12. This was based on the confirmed contract values obtained at the time of the tender process to select the service providers, and indicative costs of maintaining the housing stock at the Decent Homes standard for the two years after 2014/15. The post 2014/15 costs were estimates, based on our historic stock condition information from condition surveys completed since 2006, and we anticipated they would be refined once the stock condition scoping surveys for the DHIP programme had been completed in 2014/15. This work is currently being completed by the Planned Investment Team with a view to informing the decision making required to establish the post 2014/15 improvement programmes priorities, which is also due to be considered by Cabinet on 24 June 2014 as part of the proposed report on funding for the newly identified non Decent Homes.

2.4 There are multiple variables that can affect the cost of completing a years programme of works, as the programme is driven by the condition of each individual property, and therefore the level of work required to it (as explained in section 1.3 of the Cabinet report).

2.5 When determining our approach to commissioning works we considered basing our annual programme cost forecasts on our existing stock condition information. When we submitted our HCA funding bid we held stock condition survey data on approximately 65% of our tenants homes and the condition of the remaining properties had been "cloned", a recognised asset management technique that allows the condition of properties not surveyed to be assumed from similar ones which have been surveyed. The alternative approach was to complete scoping surveys of all the properties due to be improved in each year of the programme, prior to commissioning the work from the service providers.

2.6 It was therefore decided that the risk of placing orders for the completion of Decent Homes Improvements to tenants homes without a confirmed stock condition survey was significant enough to make it worthwhile carrying out surveys of each home before orders were placed. The alternative would have been to ask the contractors to price based on our historic stock condition information, from which they would have to decide whether or not to do their own pricing surveys. This could have introduced significant variations when properties were having work commenced on them, as a result of the service providers finding a different profile of work was required, or, could have lead to unnecessary or incomplete works being undertaken, if the stock condition survey information was incorrect.

2.7 Having decided to commission scoping surveys, we initially intended to commission just one large programme for the whole housing stock, however, having considered the cost and logistic issues surrounding this, the preferred approach subsequently became to complete the surveys annually in advance of the programme of works being confirmed to the service providers for the subsequent year. Through this process we were confident that the Councils and the tenants' interests in terms of delivering the right work to the right properties for the right price could best be promoted, leading to a value for money outcome for all concerned.

2.8 For the first two years of the programme, the contractor's prices were held at the levels quoted in their tenders. The contract contained a provision to allow prices in subsequent years to be varied based upon cost pressures in the market prevailing at the time of the price being submitted.

2.9 The £1.65 million additional costs identified as part of the pricing process for the 2014/15 programme represent 4.7% of the estimated total contract value of £35 million over five years. Although a significant amount of money, this is considered to be within the acceptable operating tolerances for a contract of this size and nature.

2.10 As explained in section 3.5 of the Cabinet report, the contractors have experienced increases in the cost of labour and materials, which they have reflected in price increases to us. It is also important to note that for some elements of work, prices have been reduced by the service providers from last year's levels.

2.11 Another significant factor also explained in section 3.5 of the Cabinet report is that the amount of work required to the properties in the 2014/15 programme differs in profile from that required in the previous two years, in terms of the elements of work required. Whilst the average number of elements of work remains constant at 3.6 per property, the detail within the elements has a greater proportion of higher cost works. This includes -

- Roofing – as explained in the Cabinet report the number of properties requiring roofing work is higher in 2013/14 than in previous years with an increase from 224 in 2013/14 to 305 in 2014/15, an increase of 81 roofs. The programme also contains a number of slate roofs which are particularly expensive to replace and this has a negative impact on the average cost.

- Asbestos Removal – as the types of property in the 2014/15 programme have a higher proportion of properties with asbestos to be removed, we need to ensure there is adequate budget provision to fund this work at the time of commissioning the programme. An alternative would be to leave the asbestos in situ and work around it where possible, but this is not being pursued as it simply defers the challenge of addressing the asbestos to a later date.

- Level Access Showers – a very popular element of the improvement programme has been the offer of a Level Access Shower in suitable properties in lieu of a standard bathroom. We have seen the take up rate of this offer reach 90% for the 2012/13 and 2013/14 programme, and it is very popular with tenants. It also has the advantage of future proofing our older persons housing stock to reduce the need for future aids and adaptation requests (which are funded from the Housing Capital programme). The profile of properties within the 2014/15 programme includes 295 potential level access showers compared to just 130 in the 2013/14 programme. For each shower installed there are additional marginal costs, over and above the cost of a standard bathroom, which are not covered by backlog funding, and when preparing our budgets we are taking a prudent view by ensuring we have the financial capacity to meet 100% of the potential costs if all eligible tenants chose to take up this option.

2.12 Inflationary pressures also form part of the reason for the costs having increased, as explained in the Cabinet reporting section 3.5. Whilst it is technically possible to fix prices for the full duration of the contract term, this becomes more difficult over longer periods, as the service providers will need to make some provision in their tendered costs to cover for potential increases in labour and materials prices. The TPC we use is based on "open book" principles and therefore any cost increases have to be justified and explained as part of the pricing process. Verification of the costs submitted has been completed, and as a result of the increased activity in the housing market there are genuine cost pressures being experienced by the service providers, as detailed in the Cabinet report. In the event that we act unreasonably in terms of agreeing to justified cost increases, there are risks the contractor may not wish to honour the contract, or will be forced to engage sub contractors prepared to deliver the works to the price available, which can have a negative impact on the quality of work completed, and therefore overall experience for our customers. In fixed price contracts there is also the risk that when submitting their tender, the service providers may make assumptions about cost increases which do not come to pass. If this is the case, the service provider sees a windfall gain in income, although they have to stand any losses arising from costs increasing by more than the provision they have made in their tender price. To remove this uncertainty, the TPC has a negotiated open book approach to this area.

2.13 As previously mentioned in section 2.2, the initial assessment of the value for money provided by our service providers was undertaken at the time the TPC was let. This involved an Official Journal of the European Union (OJEU) compliant advertising, assessment, and subsequent extensive tender evaluation process examining both the cost and quality of bids submitted against a pre agreed set of evaluation criteria. This process included input from a Tenant Representative, and resulted in the final decision to appoint Kier Services and Lovell Partnerships.

2.14 Having made the commitment to work with Kier Services and Lovell Partnerships for the five year duration of the contract the various prescribed processes within the industry standard TPC are then used to award works, normally on an annual basis. The TPC form of contract was chosen, having evaluated the various standard forms of contract available, and determined that it represented the most appropriate model to use for the scale and type of work we were looking to procure. It also reflected industry standard best practice following the Egan Report, Rethinking Construction and the earlier Latham Review, all recommending a longer term relationship between client and contractor which were based upon partnering principles with an "open book" approach to costing.

2.15 The TPC when let included a clause requiring prices for different elements of work to be fixed for the first two years (2012/13 and 2013/14), with subsequent amendments to be negotiated based on the conditions of the chosen form of contract. Some contracts make allowance for price fluctuations based on reference to indices, such as inflation rates or the Building Cost Index. Although these rates were low at the time the contract was let, it was considered that in the event of an up-turn in the housing market the building cost related indices could see significant shifts which we would then be directly exposed to in terms of cost increases. Inflation rates can also vary significantly, and do not always accurately reflect the additional cost pressures being experienced by service providers in the building industry specifically. We also considered the option of not including any provision for costs to be increased over the life of the contract, and this was rejected, for the reasons described in section 2.12.

2.16 Another element of our approach to assessing value for money has been to use the annual analysis of costs produced by the Homes and Communities Agency. The data from this process for 2012/13 is attached as Appendix 3, and updated information for 2013/14 is anticipated to be available shortly. This allows comparison of our costs with similar Decent Homes programmes across the Country. Analysis of the 2012/13 prices indicated excellent value for money had been obtained, with our costs being below many other Councils and Arms Length Management Organisations' within the programme.

2.17 The information given in section 2 of this report, is presented to the Policy Development Committee to give reassurance that the price increases identified for the 2014/15 DHIP programme have legitimately arisen due to known factors, and in incurring these extra costs, the Council is continuing to deliver a programme of works which represents value for money.

3.0 CALL – IN GROUND 2

3.1 The second call in issue is “We want to examine in detail whether this substantial additional allocation satisfies the requirements of proportionality in comparison to the overall budget, the resources available to the Council and to the previous year’s outturn within this contract.” The following sections of this report will examine the outturn for previous years of the Decent Homes Improvement Programme, and illustrate the scale of the additional budget request being made against the total resources deployed in managing, maintaining and improving the Councils housing stock to address the point relating to proportionality.

3.2 The total five year projected costs for the works to be completed by the service providers under the term of the contract was estimated to be £35m. The request for additional funding of £1.65m therefore represents 4.7% of the total contract sum, which is considered to be within typical tolerances for a contract with this level of complexity.

3.3 In terms of the additional funding request as a proportion of the total HRA annual budget, the approved revenue budget for 2014/15 (as revised) includes estimated income of £17,152,970 and shows a projected end of year operating surplus on the account of £484,812. The Housing Capital Programme (as revised) indicates expenditure of £16,326,725 in 2014/15.

3.4 In terms of comparing the previous year’s budget outturns within the contract, the only complete year available for the DHIP programme is 2012/13 as we have not yet concluded 2013/14. The 2012/13 programme was delivered within the available budget figure, and there was some slippage due to some properties from 2012/13 being completed in 2013/14. The 2012/13 Housing Capital Programme budget for DHIP works was £4.1 million, with the confirmed expenditure in year being £3.515 million. Ongoing monitoring of the 2013/14 budget spend indicates that the current budget provision is projected to be adequate.

3.5 Whilst an additional funding requirement for £1.65 million does represent a significant additional cost to the Council, the reasons for this increase have been tested and are considered to be robust. Financial provision to meet the increase was able to be identified from existing reserves and windfall capital income with no direct impact on service delivery.

4.0 CALL – IN GROUND 3

4.1 The third call in issue is “In light of the fact that these additional costs only came to light towards the end of the contract, we feel that additional advice is required from officers as to what controls and monitoring on costs were in place, and whether these were sufficiently robust. Included in this would be consideration as to whether the original aims of the project were clear enough to achieve the desired outcome of completing within budget. We would also wish to question whether any options other than those listed in paragraph 3.6 were considered”. The subsequent sections of this report will address the issues raised here by explaining the cost control and budget monitoring arrangements in place in relation to this contract, and explain the original aims of the project to clarify that the additional budget is required to deliver the level of improvements.

4.2 There are a series of cost control measures in place relating to the Decent Homes Improvement Programme. Within the requirements of our TPC environment the process of commissioning an annual programme of works commences with the issuing of a Term Brief by the client, which specifies the work expected to be required (broken down into 17 elements) and the addresses of each property in the programme. In response to this Term Brief the service providers submit a Task Price, which details their anticipated costs, based on the details in the clients Term Brief. The Task Price details the anticipated properties where work is to be carried out, and the nature of the work at each address. The work required is broken down into the same 17 different elements for each address with an average price quoted for each element by the service providers in their submission to us. This element of the total price is known as the "measured works" element, as it depends upon the volumes of work completed. In addition to this, the service providers also have an element of cost known as "preliminaries" which are their fixed costs for undertaking the programme of works. The combination of the "measured term" element and the "preliminaries" makes up the total Term Price for the works for that year. The prices submitted in the Task Price by the service providers are then considered and evaluated by the client. This includes an open book principle assessment of the reasons for any increases or decreases in costs for certain elements of work. If the client is satisfied that the Term Price is acceptable, it is confirmed as a Task Order and the Service Providers can then commence delivery of the programme of works.

4.3 The process of cost control once the Task Order has been issued to the Service Providers is an ongoing one throughout the contract period. It is based around a monthly invoicing process whereby throughout each month the client officers will inspect all properties as they are completed to ensure they meet the required standard, and all of the elemental works required have been completed. If the work is incomplete, or does not meet the required standard, the property will not be "closed" until this is addressed. Once a property has been "closed" the service provider can then submit it for payment as part of their next monthly invoice process. The client then checks details of all of the properties closed and the details of work completed at each address against the invoice submitted and once satisfied it is accurate, a payment is authorised. This process is repeated monthly for the duration of the Task Order, and costs are monitored both through the individual service provider monthly monitoring meetings and monthly Core Group meetings (with the contract managers for the two service providers Kier and Lovell, and the client manager for the contract, the Repairs and Investment Team Manager), and than on a quarterly basis to the HRA Business Plan Project Board, which includes the Head of Housing and Head of Finance and is chaired by the Director of Services,. This contract budget monitoring is supplemented by the wider Housing Finance Clinics, which monitor all Housing related expenditure on a monthly basis. Information from these budget monitoring processes is then considered monthly, as part of the Council's wider financial monitoring processes and reported to Members as part of the Quarterly Performance reporting regime. This is supplemented by the Homes and Communities Agency's monitoring of our performance through both quarterly performance returns and regular monitoring meetings. The District Auditor (KPMG) also checks and verifies our Decent Homes Backlog Funding grant claim on an annual basis, and this was successfully completed for the 2012/13 year.

4.4 There are inevitable variations from the detailed works specified in each Task Order in response to factors such as tenant's choices, and the need to substitute properties as a result of no access or refusals to have the work completed. These variations are monitored through the same process referred to above and the ongoing spend adjusted accordingly.

4.5 The additional costs have been identified in the third year of a five year contract term, although this is the last year of the Decent Homes Backlog funding element of the improvement programme. The 2015/16 and 2016/17 improvement programmes will also be delivered through the existing TPC framework, against improvement priorities which will be determined in the forthcoming months. Once these priorities are determined, the 2015/16 programme will be developed and costed, and it is intended that the confirmed cost will be used to develop the detailed budget proposals for the 2015/16 Housing Capital Programme. By doing this we will ensure that adequate budget provision is made as part of the normal budget setting process.

4.6 The original aims of the project were to complete improvement works to a projected 3729 Council tenants' homes that were believed to be either already Non Decent, or would fail the Decency standard before March 2015. The project would also provide the contractual framework to deliver two subsequent years' improvement programmes in 2015/16 and 2016/17 after the Decent Homes Backlog Funding element has been completed in 2014.15. The assessment of both the number of properties that were Decent/Non Decent and the amount of work required to each one, was based on the stock condition information we held at the time of our bid for Decent Homes Backlog Funding, and this has subsequently been refined to ensure we are completing works that need to be addressed by completing stock condition "scoping surveys" of each tenant's home.

4.7 This approach has been taken to minimise any unforeseen costs as a result of using inaccurate stock condition information which could lead to substantial variations between the Task Order cost and the actual works required when assessed at the time the service provider starts work at an address.

4.8 Taken together it is considered that the contract management and cost control environment for the delivery of the DHIP programme represents a robust approach which includes external audit checks and monitoring by the Homes and Communities Agency, and the original aims of the project were sufficiently clear and have been adhered to in delivering the programme of improvement works.

4.9 The options listed in section 3.6 of the Cabinet report referred to the areas that were considered to be the viable options to address additional costs that had been identified, and Section 4 of the Cabinet report then went on to explain how we evaluated these options and arrived at the final recommendation of Option C which was supported by the Cabinet.

5.0 CALL – IN GROUND 4

5.1 The fourth call in ground is "In addition we would like to consider recommendation 3 in the report, in order to ensure the options proposed and the reasons for this further funding request are sufficiently explained". The next sections of this report will explain why the options in the report were chosen, and the level of detail associated with each of them.

5.2 Recommendation 3 of the report states that Cabinet -

3. AGREES TO RECEIVE A FURTHER REPORT AT ITS NEXT MEETING ON 24 JUNE 2014 REGARDING THE FUNDING OPTIONS TO COMPLETE DECENT HOMES IMPROVEMENTS TO THE ADDITIONAL NON DECENT PROPERTIES RECENTLY IDENTIFIED.

5.3 In order to advise members regarding the financial implications of completing works to these additional properties and to confirm the number of properties affected, further work is currently underway regarding an analysis of the projected/actual outturn of the 2014/15 programme.

5.4 It is therefore proposed that the report detailing the options for addressing the additional non Decent Homes will be referred to a future meeting of the Policy Development Group prior to consideration at Cabinet on 24 June 2014 and if supported Council on 1 July 2014. The next scheduled meeting of Policy Development Group within the draft programme of meetings for 2014/15 is on 2 July 2014. Clearly an additional meeting of the Group will be required to consider this matter in advance of Cabinet (24 June) and Council (1 July).

5.5 In determining our approach to the additional non decent properties, the initial question will be whether or not to seek to complete this work in 2014/15 or to defer it till 2015/16 or beyond.

5.6 Undertaking the works earlier will allow us to maximise the probability of all tenants homes meeting the Decent Homes standard by March 2015, however it does introduce risks, principally regarding the need for the Service Providers to price the works and mobilise to deliver them part way through the 2014/15 year, rather than as part of the overall annual programme of works.

5.7 If the works are to be delivered in 2014/15 once a price has been obtained from the Service Providers, consideration can be given to the various potential sources of funding to complete the works

5.8 As part of the process of evaluating the funding options, a revised version of the HRA Business Plan is being developed. This plan will include an assessment of the impact of the additional funding required for the 2014/15 programme, as well as a range of other changes in the operating environment within which the Housing Service is being delivered since the original plan was approved.

6.0 THE PROCESS

6.1 The process for dealing with a call-in by members is set out in the constitution, Scrutiny Procedure Rules (page 140-146). In summary, these provide for the following process.

i. Call-in should be used in exceptional circumstances where the Policy Development Group has evidence which suggests that Cabinet did not take its decision in accordance with the principles of decision making (in Article 13 of the constitution – page 26). These are:

   a. proportionality (i.e. the action must be proportionate to the desired outcome).
   b. due consultation and the taking of professional advice from officers.
   c. respect for human rights.
   d. a presumption in favour of openness.

e. clarity of aims and desired outcomes.
f. explaining what options were considered and giving the reasons for the decision.

ii. The call-in was received by the Head of Legal and Support Services in time, in writing and duly signed by those members wishing to call it in. There were no grounds to reject the call in.

iii. If, having considered the decision, Policy Development Group are concerned about it, they may refer it back to Cabinet for reconsideration, with reasons and the nature of their concerns in writing.

iv. Cabinet will then reconsider the decision and amend it or not before adopting a final decision.

v. Policy Development Group may also, if concerned about the decision, decide to refer the matter to Council. Again, they would need to provide reasons and the nature of their concerns in writing. If the matter is referred to Council and they do not object then no further action is necessary and the decision will be effective from the date of that Council meeting.

vi. If Council do object to the decision they can refer it back to the next scheduled Cabinet for reconsideration with reasons and the nature of their concerns. The process is then as set out at (iv) above.

Appendix 1

Report to Cabinet 4 March 2014 – ADDITIONAL COSTS OF THE DECENT HOMES IMPROVEMENT PROGRAMME 2014/15 and associated Appendices.

NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – 4 MARCH 2014

Title of report	**ADDITIONAL COSTS OF THE DECENT HOMES IMPROVEMENT PROGRAMME 2014/15**
Key Decision	a) Community Yes b) Financial Yes
Contacts	Councillor Nick Rushton 01530 411059 nicholas.rushton@nwleicestershire.gov.uk Councillor Roger Bayliss 01530 411055 roger.bayliss@nwleicestershire.gov.uk Chief Executive 01530 454500 christine.fisher@nwleicestershire.gov.uk Director of Services 01530 454555 steve.bambrick@mwleicestershire.gov.uk Head of Finance 01530454520 ray.bowmer@nwleicestershire.gov.uk
Purpose of report	To seek Cabinet approval to recommend to the Council an amended HRA Budget, Housing Capital Programme, and Treasury Management Strategy Statement for 2014/15, in response to the increase in costs identified as part of the preparations for the delivery of the 2014/15 Decent Homes Improvement Programme.
Reason for Decision	To ensure that Council has adequate financial resources to deliver the required programme of improvement works to Council tenants homes.
Council Priorities	Value for Money Homes and Communities
Implications: Financial/Staff	 Financial implications detailed in the report.
Link to relevant CAT	Not applicable

Risk Management Equalities Impact Assessment Human Rights	Making adequate budget provision to complete this work will allow the Council to achieve the objectives for the improvement programme as set out in the Housing Business Plan. No impact identified None identified
Transformational Government	Not applicable
Comments of Head of Paid Service	The report is satisfactory.
Comments of Section 151 Officer	The report is satisfactory.
Comments of Deputy Monitoring Officer	On the advice of external solicitors, the report is satisfactory.
Consultees	Housing Revenue Account Business Plan Project Board
Background papers	Delivery of the Decent Homes Improvement Programme 2012/13 to 2014/15 – Procurement Issues (Cabinet - 18 October 2011) Housing Revenue Account (HRA) Business Plan – (Cabinet 17 January 2012) Delivery of the Decent Homes Improvement Programme 2014/15 – Stock Condition Survey Procurement. (Cabinet – 24 September 2013) Capital Programmes – General Fund, Coalville Special Expenses and Housing Revenue Account (H.R.A.) Projected Outturn 2013/14 and Proposed Programme 2014/15. (Cabinet 11 February 2014)
Recommendations	**THAT CABINET -** **1. NOTES THE PROJECTED INCREASE IN COSTS ASSOCIATED WITH COMPLETING THE 2014/15 DECENT HOMES PROGRAMME OF IMPROVEMENTS.** **2. RECOMMENDS TO COUNCIL THE REVISED**

	2014/15 HOUSING CAPITAL PROGRAMME AND HRA BUDGET AS DETAILED IN APPENDIX 2 AND 3 OF THIS REPORT TO FUND THIS INCREASE IN COSTS, AND THE AMENDED PRUDENTIAL INDICATORS DETAILED IN APPENDIX 4. **3. AGREES TO RECEIVE A FURTHER REPORT AT ITS NEXT MEETING ON 24 JUNE 2014 REGARDING THE FUNDING OPTIONS TO COMPLETE DECENT HOMES IMPROVEMENTS TO THE ADDITIONAL NON DECENT PROPERTIES RECENTLY IDENTIFIED.**

1.0 BACKGROUND

1.1 The Decent Homes Improvement Programme was established in 2012/13 using a combination of the Council's own resources and £20.75 million of Government Decent Homes Backlog Funding, which was secured following a competitive bidding process in 2010/11. The programme was structured to deliver Decent Homes Improvement works to an estimated 3729 Council tenants homes over a three year period covering 2012/13, 2013/14 and 2014/15.

1.2 The level of Decency within the housing stock is dynamic, in that it varies on an ongoing basis due to many factors. These include reductions in Decency due to building components failing (e.g. central heating boilers breaking down), or getting older (exceeding their working life) and increases due to responsive repairs where we cannot wait for the improvement programme to pick up emerging issues. We also need to adjust the level of Decency as we sell properties under the Right To Buy or other sales, such as the recent disposal of Heather House. For these reasons the management of the delivery of the Decent Homes Improvement Programme required a degree of flexibility to react to the changing situation regarding Decency levels.

1.3 The nature and scope of work required in individual properties also varies significantly, from one or two elements requiring attention, to a comprehensive modernisation involving most components in the property. The process used to cost the works to be carried out is therefore based on average values of works per property, and whilst there are expected parameters to this average, the nature of the work being undertaken and the age and condition of the housing stock in any one year's programme can have a significant impact on the average cost for that year.

1.4 Based on the three year Decent Homes backlog funding award we have developed a three year improvement programme, designed to make all of the projected 3,729 non decent properties meet the Decent Homes standard by 31st March 2015. As part of our grant funding agreement with the Homes and Communities Agency we are required to make all of the properties that failed the Decent Homes standard before March 2012 (3390 homes), meet the Decent Homes standard by March 2015. 90% of this work is to be funded from Decent Homes Backlog Funding and the remainder from our own resources. All properties that have failed the Decent Homes standard since March 2012 are our responsibility to complete work to, and we can dictate the timetable.

1.5 In preparation for the delivery of the Decent Homes Improvement Programme, Cabinet approved a series of recommendations which created the governance infrastructure to appoint contractors and deliver the works on the 18 October 2011. This involved delegation of the authority to award works to the Director of Services in consultation with the Head of Finance as Section 151 Officer. It also included financial projections relating to the level of capital resources predicted to be needed/available to complete the full three year programme of works, but noted that with Housing Revenue Account Reform to be implemented, the situation was likely to be subject to change. It also noted that we projected that £10m of borrowing headroom was likely to be available from HRA reform and that this could provide funding capacity by saying the headroom "….this does offer us some flexibility to react to any negative short term funding issues" (section 4.7 of the report).

1.6 Having taken advice from our professional advisors Savills, we undertook an OJEU compliant procurement process to appoint two contractors to complete the required improvements. This competitive process lead to the appointment of Kier and Lovell as service providers under the terms of five-year Term Partnering Contract (TPC), to spend a projected £35 million on improvement works to Council tenants homes between 2012/13 and 2016/17.

1.7 Performance in terms of delivering the required programme is currently progressing well, with over 1800 properties already made Decent by our contractors by the end of January 2014. Improvement works to a further 1561 properties were projected to be required in 2014/15, to complete the original programme.

2.0 CURRENT SITUATION

2.1 The Term Partnering Contract that we have with our service providers, Kier and Lovell, commits us to undertaking an estimated £35 million of work over the five years of the contract term. The process through which each year's programme of work is annually commissioned is for the Council to provide each service provider with a Term Brief, which specifies details of the addresses where work is required, and the specific work required at each address.

2.2 The service providers then use the Term Brief to produce a Task Price, which is then submitted to the Council for consideration. The annual price is driven by a number of factors, including the volume and complexity of the works required, and the costs to the contractor of completing the work, in terms of labour, materials, and overheads. The Council then considers the contractors submitted Task Price, and if it is accepted we issue a Task Order which confirms the works required and the price to be charged for the year's programme. This is our third year of the five year programme, with this process being used each year to commission works.

2.3 In order to ensure that the annual Term Brief we issue to the contractors is as accurate a possible, Cabinet has agreed to the completion of scoping surveys of all the homes to be included in the programme to assess their condition. This has proved to be invaluable for us in terms of being able to minimise variations in the specified work that would have arisen if we had based our Term Brief on our historic stock condition information.

2.4 There remains a degree of variation in works process as a result of the individual needs and preferences of customers, and any unforeseen works which only become apparent once other works commence. These are managed on an ongoing basis as part of the contract management process. We also have to amend the programme on an ongoing basis due to -

- Refusals – where tenants do not want any work completing.
- Part refusals – where tenants want some but not all of the required work completing.
- Deferrals – where tenants want the works completing, but at a later date.
- No access – where we cannot make contact with the tenants.

All of these issues require properties to be moved backwards and forward in the annual programmes, with all of these movements having an effect on the contract price, as the properties brought forward may require more or less work that those originally specified. This process is also managed on a day to day basis by the Planned Improvement Team.

2.5 There is an annual Partnering Timetable as part of the contract's requirements, which gives agreed deadlines for the supply of information by both the service providers and the Council regarding the agreement to a Task Order.

2.6 At its meeting on 11 February 2014 the Cabinet was made aware in an addendum to Item 7 on the agenda regarding the Capital Programme, (see Appendix 1), that as part of the process of agreeing the Task Price for the completion of works to the 1561 tenants homes in the 2014/15 programme, additional costs of £1.873 million were identified, and additional funding will be required before these works can be commissioned as the cost currently exceeds the available draft capital budget.

2.7 Section 3 of this report will examine the options available to fund this work and/or reduce the additional budget requirement. This issue has prevented us from placing an order for the entire 2014/15 programme, so as an interim step we intend to commission a revised Task Price 5 for 800 properties (400 each for the two service providers) as this can be funded from within the existing draft capital budget. Subject to the outcome of Cabinets decisions regarding funding the rest of the programme, a further Term Brief will be issued, which will lead to the agreement of a Task Price 6 for the remaining properties in the 2014/15 programme. Prices for Task Price 5 and Task Price 6 have been received from the contractors and validated, and the final confirmed funding shortfall is £1.65 million. The reason for this reduction is that Lovell have taken the opportunity to refine their price for roofing works, making a consequent reduction. This is as a result of them changing their projected roof type profile, with an associated reduction in the projected cost of completing the works. This cost reduction would have been addressed as part of the ongoing contract management process, as the specific nature of roofing works completed is confirmed at the property handover stage, and the accounts submitted for payment have to reflect this final agreed position.

2.8 In addition to surveying the properties that were to form part of the 2014/15 improvement programme, Cabinet also agreed in September 2013 to commission surveys of the properties that we believed already met the Decent Homes standard. This was considered prudent to ensure that our information regarding these properties was as accurate as the data we held on all the other properties in the housing stock. Consequently a total of 2100 surveys were commissioned from Savills, and as a result of the outcomes from these surveys an additional 296 non Decent Homes were identified. Initial consideration of the options available with respect to addressing these properties will be considered in section 5.0 of this report, although it is proposed that a more detailed evaluation of the options available will be presented to Cabinet in June.

3.0 ADDITIONAL COSTS

3.1 As a result of the Task Price supplied by the contractors for the completion of the 2014/15 programme, we estimate an additional £1,650,058 will be required to complete the improvement work. This is because the prices supplied exceed the draft Housing Capital Programme budget provision by this amount. The draft Housing Capital programme budget was established in 2013/14 based on a projection from our historic stock condition records and historic rates charged for the completion of each element of the required improvement works. Table 1 below illustrated the position re the budget.

Table 1 –Comparison of draft budget provision and Task Price 5.

	Value ('000's)
Combined Task Price 5 and 6	£12,501,725
Available Draft Budget	£10,851,667
Difference	£1,650,058

3.2 The contract is based on partnering open book principles, and therefore the contractors supply details of the reasons for any cost increases as part of the pricing process. Our assessment of these prices is completed in three phases, 1) examining their arithmetic correctness of the prices, 2) checking the prices submitted against the specification, and 3) considering the wider Value For Money implications of the prices submitted.

3.3 Our arithmetic checks have identified no errors or omissions, and our assessment of the detailed prices submitted against properties has also identified no significant errors to date. In the event that any issues are identified after the Task Price has been agreed, these will be rectified on an ongoing basis throughout the year by adjusting prices accordingly.

3.4 The Value For Money assessment of the prices submitted will be conducted by comparing the projected costs against benchmarking data provided by the Homes and Communities Agency. The Homes and Communities Agency have advised that this analysis will not be available until 7 March 2014 as it is still being analysed by them. As soon as it is available a comparison will be completed and any necessary action with respect to issue identified will be taken.

3.5 The reasons that the costs have exceeded the draft budget are mainly -

- Roofing – An increase in the number of properties requiring roof replacement over previous years programmes, from 224 in the 2014/15 to 305 in the 2014/15, and an increase in the average cost of completing roofing works. .

- Asbestos removal –increase in the projected amount of asbestos treatment and removal as a result of age and type of properties in the programme meaning there is more asbestos to be removed.

- Level access showers – An increase in the number of properties eligible for a Level Access Shower in lieu of a bathroom replacement which we offer in bungalows and elderly/disabled designated flats. This is mainly as a result of our sheltered housing schemes all being within the 2014/15 programme. There were 130 eligible properties in the 2013/14 programme and 295 in the 2014/15 programme. Each Level Access Showers each cost an average of an additional £2500 over the cost of a standard bathroom, but this saves money in the longer term by removing the need to replace the bathroom with a Level Access Shower at some point in the future if the tenant requests it through an adaptation, and also makes our older persons housing stock more attractive to potential tenants. Although this is optional work, we have seen 90% of tenants in previous years accepting this offer, and we are therefore budgeting on an assumed 100% take up rate.

- Inflationary increases for materials and labour – with increased activity in the housing market generally, prices that have been held in previous years by suppliers are being increased. Examples include projected 5% increase in the cost of kitchens from our specified suppliers Rixonway; increases of between 5% and 10% in the cost of roofing materials by our specified suppliers Redland and Forticrete; and a 4% increase by our nominated Level Access Shower equipment supplier AKW.

3.6 In response to this situation we have three options -

Option A – reduce the costs by reducing the amount of work to be completed

Option B – reduce the specification of components to reduce costs

Option C – identify alternative funding sources for the required budget to complete the works.

4.0 OPTIONS

4.1 Examining the three options identified in more detail -

4.2 ***Option A – Reducing the amount of work to be completed.***

By removing 207 properties from the 1561 in the current 2014/15 programme, we could still complete the amount of improvement work required by the Homes and Communities Agency Backlog funding agreement from within the existing draft budget provision. This would mean that improvements to 207 tenants homes would need to be deferred until 2015/16 when a revised budget provision could be made. We could also consider removing the option for tenants in appropriately designated properties to have a Level Access Shower replacement instead of a standard bathroom.

4.3 ***Option B – reducing the specification or materials and components***

By removing our specified supplier requirements we could allow the service providers to source materials at the cheapest prices they could obtain from the market. This introduces risks of premature component failures due to a lower specification, which will increase subsequent maintenance costs and introduces non standard components into our repairs supply chain when we have been working to standardize the specification for the last 6 years.

4.4 ***Option C – identify alternative sources of funding for the required budget to complete all the required work***

There are a number of options available to secure the additional funds required to fully fund the 2014/15 programme of works. These include -

4.4.1 Additional borrowing – following the implementation of Housing Revenue Account reform, we currently have "headroom" within our HRA Business Plan of circa £11m. This represents an increase from the £10m original headroom level mentioned in 1.5, as a result of repayments already made on annuity loans. This is funding which we could access at any time subject to the Business Plan being able to sustain the repayment of any loans incurred over their full life and us having a business need which required the funding.

4.4.2 Use of HRA reserves – the portfolio of loans established when implementing HRA reform included both maturity and annuity borrowing. In order to create the budget capacity required to repay our first two loans with a combined value of £13 million which are both due in 2021/22, we have been building a surplus on the Housing Revenue Account, which is estimated to be £6.7 million at the end of 2014/15.

There is an option to use some of this surplus to provide the funding to support the additional costs identified. The mechanism to achieve this would be through an increase in the Revenue Contribution to Capital Outlay, or RCCO through which funding is transferred from the HRA to the Housing Capital Programme.

If some of the surplus were to be used, in order to rebalance the HRA Business Plan, revisions to our assumptions would need to be made in terms of our strategy to repay the loans, or our forecast expenditure levels in future years to increase our balances again back to the levels required for loan repayment on 28 March 2022. Alternatively the Council could agree to a revised borrowing strategy which re-borrowed any required funding on 28 March 2022 to refinance any outstanding balances. There is also an option to part repay and part re-borrow. Any strategy to re-borrow introduces the risk that interest rates could increase making the borrowing more expensive than currently being projected. Longer term interest rate projections will need to be obtained from our treasury advisors, Arlingclose, as part of a detailed evaluation of the options for rebalancing the HRA Business Plan.

4.4.3 Use of additional windfall capital income – 2014/15 has seen a significant increase in Right To Buy levels following the Governments "reinvigorating the Right To Buy" initiative. As a result of the increase in discounts the resultant lower average sale prices have meant that despite selling more properties than we had projected, we have not yet reached the income levels that trigger the Governments "One for One" replacement policy, which we have subscribed to. However the increase in activity has produced some additional capital receipts which are not currently part of our projected sources of funding within the capital programme. These additional receipts total £461k for the first three Quarters of 2014/15. The amount for the final quarter of the year (Q4) will not be known until April 2014.

As these additional receipts are a windfall gain to the Housing Capital Programme, they can be use to offset part of the increase in costs with no consequential implications. This approach is therefore recommended.

4.4.4 ***Reprioritising schemes within the 2014/15 programme*** – by deferring other improvement work proposed within the current draft Housing Capital Programme, it is estimated that we could release up to £980k as detailed below –

£660,000	Deferral of insulation programme (this is a two year provision as 2013/14 allocation is being deferred to 2014/15). Budget provision to supplement our ECO programme, although detailed analysis of requirement not yet concluded as works not yet priced.
£100,000	Garage site improvements. New funding to commence the implementation of our garage site survey's outcomes.
£50,000	Reduction in void and major works provision (£850k budget).
£40,000	Development site preparations (provision for demolition of decommissioned sheltered scheme buildings).
£80,000	Removal of contingency within capitalised salaries provision
£50,000	Defer speech module upgrade in some Older Persons alarm system properties pending the outcome of the Older Persons Support re-tender process

All of these options simply delay expenditure requirements to a subsequent financial year. They all form part of the draft Housing Capital budget so the funds are available, but their use is not recommended as it will simply defer the need to commit expenditure on these items to a subsequent year.

4.5 Having evaluated the available options as described in 3.6, it is recommended that Option C represents the most effective response to the increase in costs.

4.6 Following evaluation of the funding options in section 4.4 of the report, the combination of using an increase in the Revenue Contribution to Capital Outlay (4.4.2) and the windfall increase in Right To Buy income (4.4.3) is considered to be the most cost effective option to secure the required funds. This would result in the required funding being obtained from the sources identified in Table 2 below.

Table 2 – Proposed sources of additional funding for 2014/15 Decent Homes Improvement Programme

Required funding	**£1,650,058**
Windfall additional Right to Buy income (4.4.3)	**£461,000**
Additional Revenue Contribution to Capital Outlay (RCCO) (4.4.2)	**£1,189,058**
Net balance	**£0**

4.7 The Amended Housing Revenue Account Summary attached as Appendix 2, and the Amended HRA Capital Programme 2014/15 to 2017/18 attached as Appendix 3 reflect these recommended changes, and it is proposed that these amended budgets be recommended to the next meeting of Full Council on 25 March 2014.

4.8 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out a number indicators that must be set and monitored each year.

4.9 The Council was asked to approve the Prudential Indicators for 2014/15 to 2016/17 at its meeting on 25 February 2014. As a result of the proposed changes to the HRA Capital Programme detailed in this report it is necessary for the Cabinet to recommend revised Prudential Indicators to Council for approval. The revised Prudential Indicators are set out in Appendix 4.

4.10 Members will be aware that external advisors were instructed to give advice on the initial procurement process for the Decent Homes Improvement Programme and in the interests of consistency the legal advisors they employed have been asked to advise on this report. The additional budgetary requirements contained in this report were previously brought to the attention of both Cabinet (when making its recommendations) and Council (when approving the initial budget on 25 February). This report provides Cabinet (and Council on 25 March 2014) with the detail of the additional expenditure that had previously been brought to their attention.

5.0 ADDITIONAL NON DECENT PROPERTIES

5.1 As mentioned in section 2.7 of this report, the completion of the scoping surveys of the 2014/15 programme was supplemented by surveys of the properties projected to already meet the Decent Homes standard. This has identified an additional 296 Non

Decent homes, with two principal options regarding completing works to these properties.

5.2 ***Option 1 – Complete the properties in 2015/16.***

There are no contractual commitments relating to the Decent Homes Backlog Funding that require the works to be completed before March 2015. Completing the works in 2015/16 will allow a longer lead in time to manage their addition to the improvement programme.

5.3 ***Option 2 - Complete the properties in 2014/15 and amend the capital programme to provide the required additional funds.***

Completing the required works has been estimated to require funding of £2.37 million, based on the use of the 2014/15 revised average cost per property. The final cost for the works will only be known once the Term Brief to Task Price process has been completed for an additional order to the service providers. There will also be risks that commissioning the additional works part way through the year, would introduce delivery challenges to the service providers which could negatively impact on the delivery of the core 2014/15 programme by the March 2015 deadline.

5.4 It is proposed that a further report examining the options to complete works to these properties will be presented to Cabinet in June 2014, and Cabinet is invited to offer any initial views regarding its preference between Options 1 and 2 as described in sections 5.2 and 5.3.

Appendix 1

CABINET

11 FEBRUARY 2014

ITEM 7 – CAPITAL PROGRAMME GENERAL FUND – COALVILLE SPECIAL EXPENSES AND HOUSING REVENUE ACCOUNT (H.R.A.) PROJECTED OUTTURN 2013/14 AND PROPOSED PROGRAMME 2014/15 TO 2017/18

UPDATE TO SECTION 5 – H.R.A. CAPITAL PROGRAMME 2014/15 – 2017/18 – INDIVIDUAL SCHEMES

Preparations for the delivery of the 2014/15 Decent Homes Improvement Programme have identified two issues which could have an impact on the 2014/15 Capital budget and related reports on this agenda.

1. **Cost of Completing 2014/15 Decent Homes Improvement Programme**

The Decent Homes Improvement Programme delivery contractors (Kier and Lovell) have produced a price for the completion of the improvements we have specified to the 1561 tenants homes currently contained within the 2014/15 programme. Due to a number of factors, this price exceeds the draft 2014/15 Capital budget allocation by £1.874 million.

The principal reasons for this are -

- Asbestos removal costs are higher than projected due to a higher volume of properties with asbestos that requires treating.

- Inflationary increases have been applied by the contractors in some areas and provisions in specific commodities and trades price increases have been factored in (these prices were fixed for 2012/13 and 2013/14).

- Higher roofing costs due to an increase in the volume of roof replacements and the types of roof requiring work being of a more complex nature.

- A significant increase in the proportion of properties potentially requiring a Flat Floor Showers, which are offered to all Older Persons' designated properties in lieu of a bathroom replacement.

We are currently conducting a Value For Money assessment of the prices received to ensure they reflect current market rates. This will be completed through use of the Homes and Communities Agency benchmarking data for the works costs of all Councils delivering Decent Homes Backlog Funding works.

There are a range of options available to secure the funding required to complete this work, and these need to be evaluated in a considered way before a recommended way forward can be proposed to Members. It is intended that this will be completed and a report addressing the financial and budget implications will be submitted to the next meeting of Cabinet, in March 2014, for consideration and referral on to Council if appropriate.

External advice is currently being sought on the most appropriate way to maintain continuity of workload for the contractors and avoid any potentially unnecessary costs being incurred.

Subject to that advice, it is intended to issue an order to the contractors to complete the first 800 properties in the 2014/15 programme (400 to Kier and 400 to Lovell), with the remainder to be confirmed once the funding sources have been determined. This approach would commit £6.48 million of the draft budget (£10.85 million). The remaining budget would not be committed until the further report had been considered by Members in March.

2. Number of Non Decent Properties

Following Cabinets approval to appoint Savills as our stock condition survey consultants in September 2013, an assessment of the required works to the properties in the 2014/15 programme has been completed. In addition the properties we believed from historic data were already at the Decent Homes standard have also been surveyed making a total of 2100 surveys.

Analysis of the outputs from these surveys has identified that 296 properties from the 800 surveyed do not meet the Decent Homes standard. This was a known risk, as a proportion of the properties considered to be Decent were assessed on the basis of data from surveys of other neighbouring/similar properties. There is no contractual obligation to the Homes and Communities Agency as part of their grant funding agreement for the Council to complete these additional properties next year, and the additional cost of completing the work in 2014/15 has been estimated to be £2.4 million based on the average unit costs submitted by the contractors for the 2014/15 programme.

Cabinet will recall that the decision to commission a survey of these homes was taken to verify that our historic data was accurate, and it was anticipated that additional Non Decent homes may be identified as part of this process. Cabinet will consider the financial implications of these properties being brought up to the Decent Homes Standard at a future meeting.

3. Way Forward

Officers are currently evaluating the various options available regarding the timing and funding for completing improvement work to these tenants homes, and will report back in detail on these matters to the next meeting of Cabinet on 4 March 2014.

If significant changes are required to the Capital Programme approval would be also required from Council on 25 March 2014. It is also possible that Cabinet and Council would need to make amendments to the Treasury Management Strategy Statement 2014/15 and potentially the Housing Revenue Account budget if additional funding is provided from revenue resources.

SUPPLEMENTARY RECOMMENDATION

That Cabinet notes the two issues relating to the available budget for the 2014/15 Decent Homes Improvement Programme, and the recently identified additional number of non decent homes, and agrees to receive a further report detailing the implications for the 2014/15 Capital Programme at the Cabinet meeting on 4 March 2014.

HOUSING REVENUE ACCOUNT SUMMARY

LINE NO.	DETAIL	2013/2014 Budget £	2013/2014 Forecast (p9) £	2014/2015 Estimate £
	HOUSING REVENUE ACCOUNT			
1.	TOTAL REPAIRS & MAINTENANCE	4,849,230	4,879,170	4,933,190
	SUPERVISION & MANAGEMENT			
2.	General	2,114,740	2,041,070	2,117,130
3.	Special / Supporting People	229,830	168,600	387,720
4.		2,344,570	2,209,670	2,504,850
5.	PROVISION -DOUBTFUL DEBTS	96,760	96,760	170,790
6.	CAPITAL FINANCING:-			
7.	Depreciation - MRA & other	4,008,170	4,008,170	4,008,170
8.	Debt Management Expenses	1,380	1,380	1,390
9.		4,009,550	4,009,550	4,009,560
10.	HOUSING SUBSIDY PAYMENT TO NATIONAL POOL	0	0	0
11.	TOTAL EXPENDITURE	11,300,110	11,195,150	11,618,390
12.	RENT INCOME			
13.	Dwellings	16,051,250	15,800,430	16,741,400
14.	Service Charges	316,550	303,680	304,550
15.	Garages & Sites	89,020	83,340	80,920
16.	Other	26,100	26,100	26,100
17.		16,482,920	16,213,550	17,152,970
18.	GOVERNMENT GRANTS			
19.	Decent Homes Backlog Grant	0	8,500,000	8,560,000
		0	8,500,000	8,560,000
20.	TOTAL INCOME	16,482,920	24,713,550	25,712,970
21.	NET COST OF SERVICES	-5,182,810	-13,518,400	-14,094,580
22.	CAPITAL FINANCING - HISTORICAL DEBT	175,000	175,000	175,000
23.	CAPITAL FINANCING - SELF FINANCING DEBT	3,257,170	3,257,170	3,257,170
24.	INVESTMENT INCOME	-25,200	-25,200	-25,200
25.	PREMATURE LOAN REDEMPTION PREMIUMS	19,270	19,270	14,470
26.		3,426,240	3,426,240	3,421,440
27.	NET OPERATING EXPENDITURE	-1,756,570	-10,092,160	-10,673,140
28.	REVENUE CONTRIBUTION TO CAPITAL	250,000	250,000	1,679,058
29.	DEPRECIATION CREDIT - VEHICLES	0	0	-50,730
30.	DECENT HOMES BACKLOG GRANT FINANCING	0	8,500,000	8,560,000
31.	CONTINGENCY	33,000	0	0
32.		283,000	8,750,000	10,188,328
33.	NET (SURPLUS) / DEFICIT	-1,473,570	-1,342,160	-484,812
	<u>HRA BALANCES</u>			
34.	Balance Brought Forward	-3,759,156	-3,759,156	-5,101,316
35.	(Surplus)/Deficit for Year	-1,473,570	-1,342,160	-484,812
36.	Balance as at year end	-5,232,726	-5,101,316	-5,586,128

2014/15 TO 2017/18 HRA CAPITAL PROGRAMME **APPENDIX 3**

	Notes	2013/14 Approved Programme	2013/14 Revised Programme Jan 2014	2014/15	2015/16	2016/17	2017/18	
2012-17 DHIP Programme								
Year 1 programme slippage (including Major Aids & Adaptations completed under DHIP)			1,192,450					
Year 1 Programme Additional costs			-					
HCA Funded Properties (90% of pre 2012 failures)		8,500,000	9,026,000	8,560,000	-	-	-	
NWLDC Funded Properties (10% + post 2012 failures)	Post 2015/16 as per PIMSS	1,417,000	1,376,000	3,076,725	4,500,000	4,500,000	4,500,000	2014/15 amended to reflect addional spend
Major Aids & Adaptations completed under DHIP			453,000					
Enabling Works Provision	Works in addition to core DHIP spec which are essential to complete jobs.	415,000	415,000	415,000	132,000	132,000	132,000	
Enabling Works for Decants	Including decs/soft furnishing and decant allowance	30,000	30,000		-	-	-	
Asbestos Handling	Disposal of asbestos, following R&D asbestos surveys	450,000	450,000	450,000	50,000	50,000	50,000	
Year 3 Scoping Surveys	Assumed cost £164 per survey	225,000	267,000					
Year 4 Scoping Surveys	Assumed cost £164 per survey. Year 1-4 scoping surveys = 4,475 = total stock.							
2012-17 HPIP Programme								
Fire Risk Assessment Remedial Works	Includes provision for fire risk assessment work, including doors, signage, external openings.	80,000	35,500	40,000	40,000	40,000	40,000	
Lift Replacement	6 lift replacements at Sheltered Schemes	300,000	-	300,000				
Fire Alarm / Emergency Lighting	Sheltered scheme & communal flats emergency lighting and fire alarm upgrades	340,000	146,000	194,000				
Communal Boilers	4 schemes + Woulds/Cherry Tree	146,000	80,000					
Measham (Riverway) Staircases	Reinforced concrete communal staircase remedial works	60,000	32,000					
Defective floor slabs (red ash floors)/Damp proofing (loughborough rd and other identified in year)	Assumption of average of 25 properties p.a. @ £6k each. Loughborough rd - 17 properties, other - 15 properties pa £2.5k each. Budget originally intended for chemical injection, llikely that other remedial works will be completed instead within same budget provision	422,500	300,000	310,000	187,500	187,500	187,500	
Fuel swaps (solid fuel to gas supply)	Energy company rebate on fuel swaps income = £12k estimate	67,000	67,000	78,000	25,000	25,000	25,000	
In Year Priorities	No current provision held			-	-	-	-	
Garage Modernisation	One off £100k provision for demolitions, resurfacing & lighting works	50,000		100,000	-	-	-	
Carbon Monoxide Detectors	Potential delivery through solid fuel servicing contractor as will not exceed CV by more than 50%	15,000	15,000	-	-	-	-	
DH Works in Voids and Tenanted Properties	Additional provision added 13/14 to reflect historic expenditure trends	1,455,000	850,000	850,000	850,000	850,000	850,000	
Major Aids & Adaptations	Expenditure on flat floor shower on DHIP needs a virement of additional costs over standard bathroom to be transferred out of this budget where there is not an active A&A referral @ an approx cost of £1200 pp	380,000	140,000	380,000	350,000	350,000	350,000	

	Notes	2013/14 Approved Programme	2013/14 Revised Programme Jan 2014	2014/15	2015/16	2016/17	2017/18
Development Site Preparations	Related to decommissioned sheltered schemes. £20k, provision left in for 12/13 for rebulding wall at Heather House	40,000	40,000	40,000	-	-	-
Insulation Works	Principally external wall works. External grant income anticipated.	525,000	-	660,000	-	-	-
Green & Decent Installations	Pilot costs for 2013/14, recurring budget requirement from 2015/16 for ongoing programme. External grant income anticipated.	125,000	-	125,000	250,000	250,000	250,000
IBS Upgrade (Contract Module)	Provision for repairs data requirements required to support implementation of repairs diagnostics and mobile working. Moved from 2012/13 to 2013/14.	25,000	25,000				
Dynamic Scheduling	Required for Mobile Working (Dynamic Scheduling) project.	34,550	34,550				
Speech Module	Replacement of speech module equipment in hard wired older persons acommadation.			50,000	50,000	50,000	50,000
Capital Programme Delivery Costs	Includes Decent Homes Improvement Programme contigency	763,000	763,000	698,000	623,000	623,000	623,000
Unallocated/Contingency	Contigency prior to 2015/16 incorporated into indivudual budget lines. For 2015/16 onwards seperate provision held to ensure adequate capacity available to meet in years needs as and when identified.			-	500,000	500,000	500,000
Capital Allowances							
Programme to be defined	Review of income from asset disposals will determine capacity within this budget. Potential option of funding works within Other Investment category from this source						
Total Programme Costs		**15,865,050**	**15,737,500**	**16,326,725**	**7,557,500**	**7,557,500**	**7,557,500**
Funding							
A&A Grant							
Usable balances held @ 31/03/12		2,913,000	4,008,000	1,720,500	613,451	625,295	608,795
Retained Right to Buy Receipts (RTB)	Based on projections from Spreadsheet agreed on 01/11/2012. Target/estimate to be used one year in arrears.	174,000	143,000	203,618	228,344	200,000	200,000
RCCO	Balancing transfer from HRA to be verified through HRA Business Plan Model.	250,000	250,000	1,679,058	3,250,000	3,250,000	3,250,000
Decent Homes Backlog Funding		8,500,000	9,026,000	8,560,000	-	-	-
Major Repairs Allowance	More detailed work to be undertaken as part of HRA Business Planning and in reference to HRA component depreciation.	3,991,000	3,991,000	3,991,000	3,991,000	3,991,000	3,991,000
Asset Disposals (Capital Allowance)	Income from sale of HRA (non RTB) assets. Target/estimate to be used one year in arrears. (Includes Broughton Street District Heating building).	65,000	40,000	325,000	100,000	100,000	100,000
Windfall RTB receipts				461,000			
Total Funding		**15,893,000**	**17,458,000**	**16,940,176**	**8,182,795**	**8,166,295**	**8,149,795**
Cumulative Over / (Under Resource)		**27,950**	**1,720,500**	**613,451**	**625,295**	**608,795**	**592,295**

APPENDIX 4

PRUDENTIAL INDICATORS

1 Background

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

2. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that the debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

The Section 151 Officer reports that the Authority has had no difficulty meeting this requirement in 2012/13, nor is there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

3. Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

Capital Expenditure	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Non-HRA	1.779	2.031	2.496	1.122	1.281
HRA	15.865	15.738	16.327	7.558	7.558
Total	**17.644**	**17.769**	**18.823**	**8.680**	**8.839**

Capital expenditure will be financed or funded as follows:

Capital Financing	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Capital receipts	0.239	0.183	0.990	0.328	0.300
Government Grants	8.873	9.255	8.784	0.224	0.224
Major Repairs Allowance	0.000	3.991	3.991	3.991	3.991
Reserves	3.048	2.635	1.852	0.000	0.017
Other Contribution-s106	0.000	0.055	0.115	0.000	0.000
Grants - Other	0.000	0.000	0.013	0.000	0.000
Revenue contributions	4.213	0.448	1.838	3.388	3.399
Total Financing	16.373	16.567	17.583	7.931	7.931
Supported borrowing	0.000	0.000	0.000	0.000	0.000
Unsupported borrowing	1.271	1.202	1.240	0.749	0.908
Total Funding	1.271	1.202	1.240	0.749	0.908
Total Financing and Funding	**17.644**	**17.769**	**18.823**	**8.680**	**8.839**

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code.

The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2013/14 Approved %	2013/14 Revised %	2014/15 Estimate %	2015/16 Estimate %	2016/17 Estimate %
Non-HRA	10.22	10.08	10.14	9.83	10.18
HRA	14.68	15.87	14.91	14.78	14.65
Total (Average)	**12.95**	**13.59**	**13.31**	**13.21**	**13.25**

5. Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and it's financing.

Capital Financing Requirement	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Non-HRA	13.619	13.591	14.248	14.421	14.740
HRA	79.155	78.168	77.159	76.128	75.072
Total CFR	**92.774**	**91.759**	**91.407**	**90.549**	**89.812**

6. Actual External Debt

This indicator is obtained directly from the Authority's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 31/03/2013	£m
Borrowing	88.510
Other Long-term Liabilities	0.055
Total	**88.565**

7. Incremental Impact of Capital Investment Decisions

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

Incremental Impact of Capital Investment Decisions	2013/14 Approved £	2013/14 Revised £	2014/15 Estimate £	2015/16 Estimate £	2016/17 Estimate £
Increase in Band D Council Tax	2.55	2.59	2.99	2.32	2.63
Increase in Average Weekly Housing Rents	3.76	3.76	4.30	3.40 *	3.29 *

*The Government is proposing to change the basis of the calculation of rents from 2015/16 and has recently consulted on this but the outcome is as yet undetermined. The estimates for 2015/16 and 2016/17 are based on one of four potential options and are therefore subject to change, when a new method has been agreed.

8. Authorised Limit and Operational Boundary for External Debt

The Authority has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Authority and not just those arising from capital spending reflected in the CFR.

The **Authorised Limit** sets the maximum level of external debt on a gross basis (i.e. excluding investments) for the Authority. It is measured on a daily basis against all external debt items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases. It is consistent with the Authority's existing commitments, its proposals for capital expenditure and financing and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2013/14 Approved £m	2013/14 Revised £m	2014/15 Estimate £m	2015/16 Estimate £m	2016/17 Estimate £m
Borrowing	97.100	97.100	99.914	97.579	97.025
Other Long-term Liabilities	1.000	1.000	0.700	0.700	0.700
Total	**98.100**	**98.100**	**100.614**	**98.279**	**97.725**

The Operational Boundary links directly to the Authority's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

The Section 151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Council.

Operational Boundary for External Debt	**2013/14 Approved £m**	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Borrowing	95.100	95.100	97.914	95.579	95.025
Other Long-term Liabilities	0.500	0.500	0.500	0.500	0.500
Total	**95.600**	**95.600**	**98.414**	**96.079**	**95.525**

9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority has adopted the principles of best practice.

Adoption of the CIPFA Code of Practice in Treasury Management
The Authority has re-affirmed adoption of the CIPFA Treasury Management Code within this strategy, 11 February 2014.

The Authority has incorporated the changes from the revised CIPFA Code of Practice into its treasury policies, procedures and practices.

10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Authority to manage the extent to which it is exposed to changes in interest rates. The Authority calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

The upper limit for variable rate exposure has been set to ensure that the Authority is not exposed to interest rate rises which could adversely impact on the revenue budget. The limit allows for the use of variable rate debt to offset exposure to changes in short-term rates on investments.

	Existing (Benchmark) level 31/03/13 %	**2013/14 Approved %**	**2013/14 Revised %**	**2014/15 Estimate %**	**2015/16 Estimate %**	**2016/17 Estimate %**
Upper Limit for Fixed Interest Rate Exposure	100	100	100	100	100	100
Upper Limit for Variable Interest Rate Exposure	50	50	50	50	50	50

The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Authority’s treasury management strategy.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

11. Maturity Structure of Fixed Rate borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

Maturity structure of fixed rate borrowing	**Lower Limit for 2014/15 %**	**Upper Limit for 2014/15 %**
under 12 months	0	20
12 months and within 24 months	0	20
24 months and within 5 years	0	20
5 years and within 10 years	0	50
10 years and within 20 years	0	50
20 years and within 30 years	0	60
30 years and within 40 years	0	50
40 years and within 50 years	0	50
50 years and above	0	0

12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Authority having to seek early repayment of the sums invested.

	2013/14 Approved £m	**2013/14 Revised £m**	**2014/15 Estimate £m**	**2015/16 Estimate £m**	**2016/17 Estimate £m**
Upper Limit	5	5	5	5	5

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Appendix 2

Extract from the Draft Minutes of Cabinet – 4 MARCH 2014

MINUTES of a meeting of the CABINET held in the Board Room, Council Offices, Coalville on TUESDAY, 4 MARCH 2014

Present: Councillor R Blunt (Chairman)

Councillors R D Bayliss, T Gillard, T J Pendleton, N J Rushton and A V Smith MBE

In Attendance: Councillors D De Lacy, J Legrys, S Sheahan and M B Wyatt

Officers: Mr S Bambrick, Mr R Bowmer, Ms C E Fisher, Mrs C Hammond and Miss E Warhurst

115. ADDITIONAL COSTS OF THE DECENT HOMES IMPROVEMENT PROGRAMME 2014/15

The Housing Portfolio Holder presented the report to Members.

He reminded Members that at the last meeting of Cabinet they were advised that additional costs had been identified and that this would need to be met from other reserves.

It was moved by Councillor R D Bayliss, seconded by Councillor N J Rushton and

RESOLVED THAT:

Cabinet -

1. Notes the projected increase in costs associated with completing the 2014/15 Decent Homes Programme of Improvements.

2. Recommends to Council the revised 2014/15 Housing Capital Programme and HRA budget as detailed in appendix 2 and 3 of this report to fund this increase in costs, and the amended prudential indicators detailed in appendix 4.

3. Agrees to receive a further report at its next meeting on 24 June 2014 regarding the funding options to complete decent homes improvements to the additional non decent properties recently identified.

Reason for decision: To ensure that Council has adequate financial resources to deliver the required programme of improvement works to Council tenants homes.

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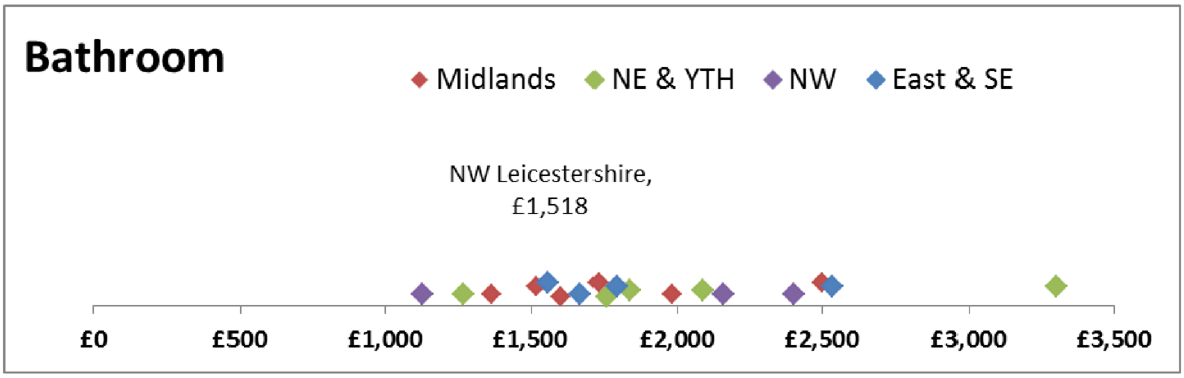
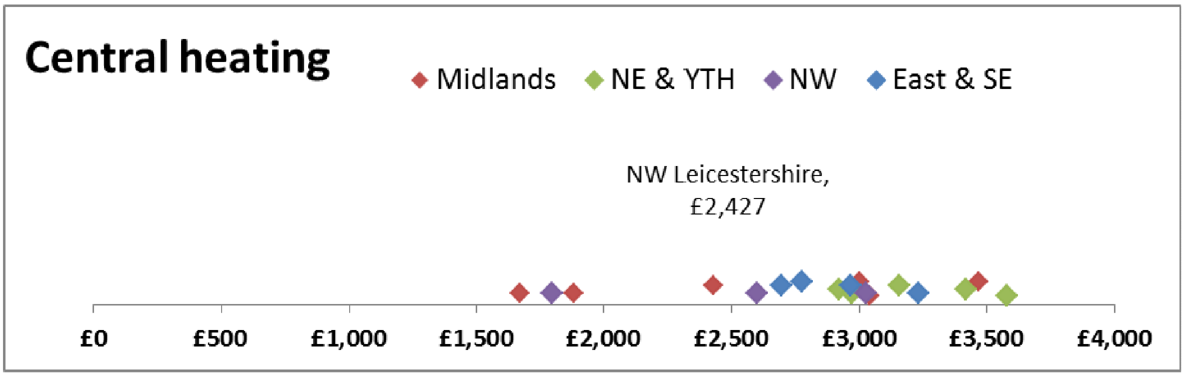
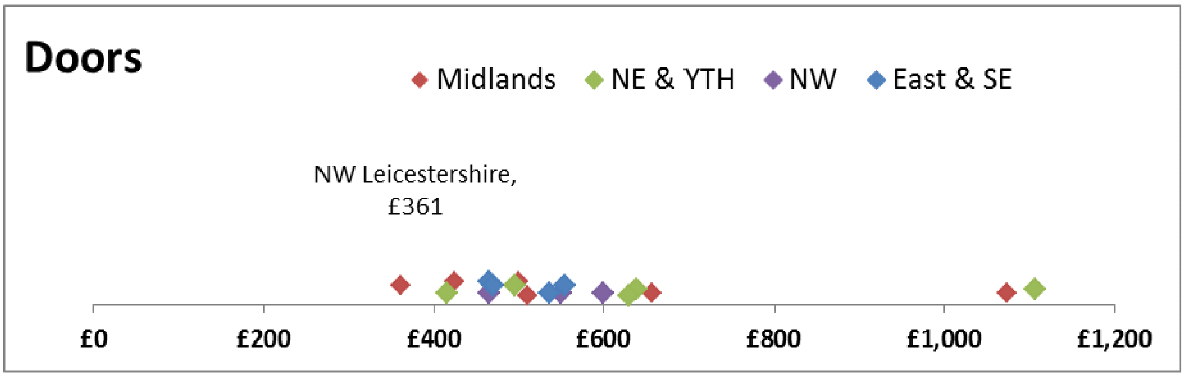
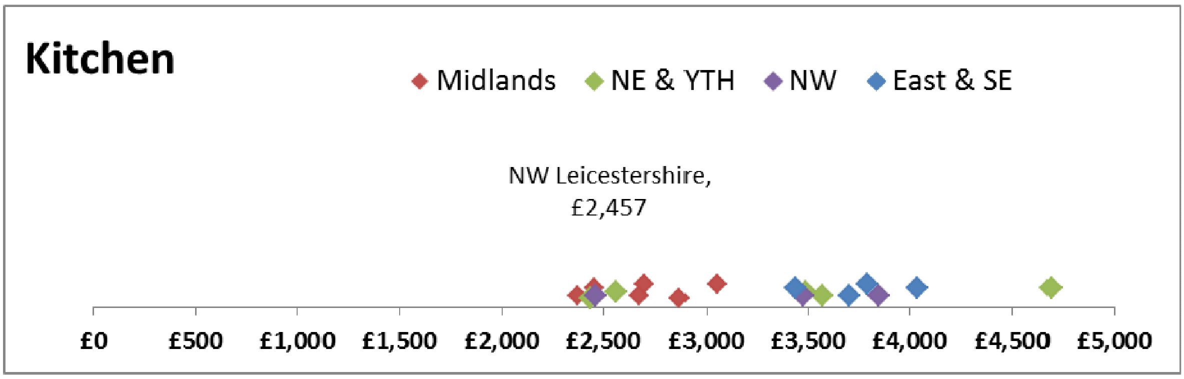
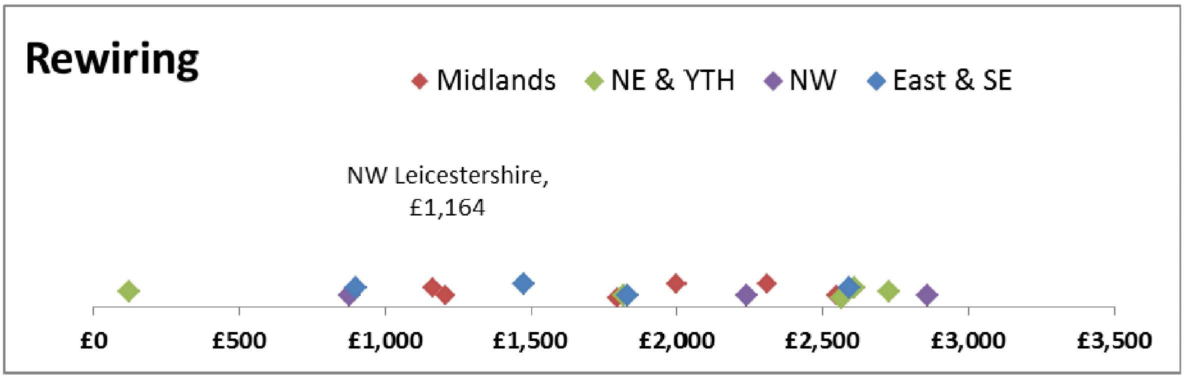
2012-13 DHB Component Costs - North West Leicestershire, Midlands

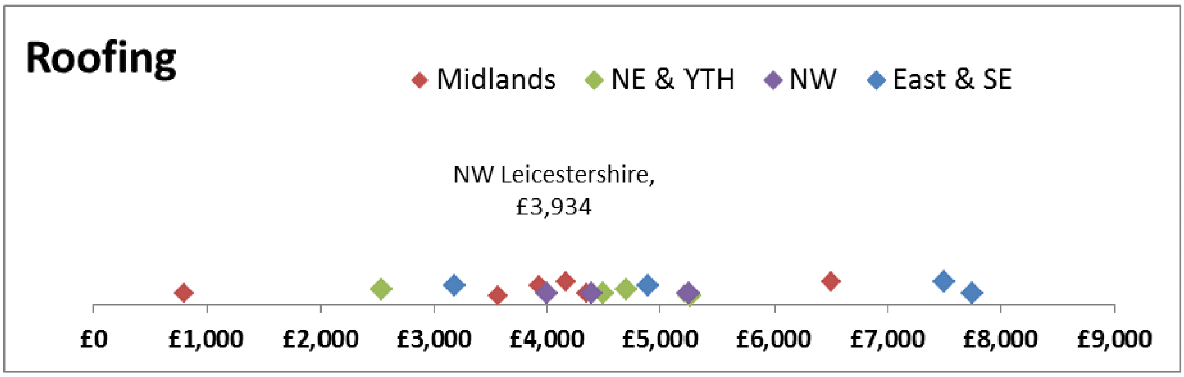


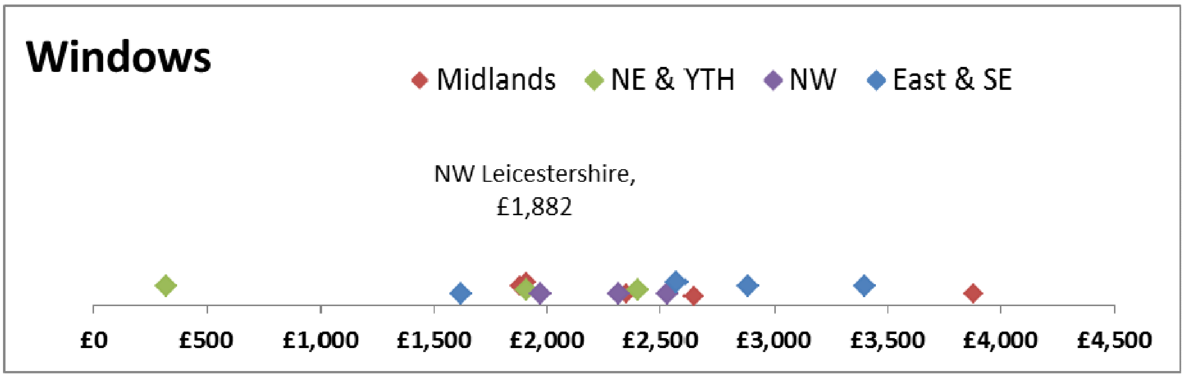












Please note: The above charts' regional display is in accordance with the HCA Operating Areas distribution. The above information is collated and evaluated from information provided by LAs on annual meeting of the Decent Homes Backlog 2012-13.