APPENDIX 1

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 412059 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.

APPENDIX 2

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
	HRA BALANCES			
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