

Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

HOUSING & COMMUNITY SAFETY SCRUTINY COMMITTEE	11 JANUARY 2007
CABINET	15 JANUARY 2007
COUNCIL	25 JANUARY 2007

HOUSING REVENUE ACCOUNT – BUDGET 2007/08

Report of the Corporate Director of Adults & Housing and Chief Finance Officer

1. Purpose of Report & Summary

- 1.1 This report summarises the financial position of the Housing Revenue Account (HRA) for 2006/07 and 2007/08. The approval of Members is sought for setting rents for 2007/08 again based on the Government's 'formula rents', and Members are asked to determine the levels of service charges to be applied in 2007/08.

2. Recommendations

- 2.1 Housing & Community Safety Scrutiny Committee is recommended to consider the issues raised in this report and the views of the Housing Management Board and pass any comments onto the meeting of the Cabinet.
- 2.2 Cabinet is asked to consider the report and any comments from the Housing & Community Safety Scrutiny Committee and recommend Council to: -
- (i) note the estimated working balance of £1.815m at the start of 2007/08 and approve the base budget for 2007/08 as detailed at Appendix A;
 - (ii) consider the issues outlined in the Supporting Information of this report and, in particular, the comments of the Housing & Community Safety Scrutiny Committee and the Housing Management Board, which will be reported at the meeting;
 - (iii) approve the setting of rents for 2007/08 on the basis of 'formula rents' and within the ranges shown in Appendix B, noting that different properties will attract different increases and the overall average, in terms of income generated, will equate to a 5% increase overall.

- (iv) approve the revised level of miscellaneous payments and charges to be applied in 2007/08, as detailed in Appendix D;
- (v) approve the 'prudential indicators' for the HRA, as detailed in Section 7 and Appendix E of the 'Supporting Information';
- (vi) approve that £79,000 be added to the 2007/08 budget (and £279,000 in 2008/09 and reducing in later years as more principal repayments are made) to facilitate the inclusion of £3.1m of additional HRA capital expenditure in the 2007/08 Housing Capital Programme, to be financed by unsupported borrowing under the Prudential Framework;
- (vii) approve the inclusion of £0.2m Capital Expenditure charges to Revenue Account (CERA) in the 2007/08 HRA budget to supplement the 2007/08 HRA Capital Programme.

3. Financial Implications (Graham Troup Ext 7425)

- 3.1 The Council has to balance expenditure with rent income in the ringfenced HRA each year. This can be assisted, if necessary, by drawing on HRA balances, which are estimated to be £1.815m at 1st April 2007.
- 3.2 Leicester commenced property-specific rent restructuring (i.e. setting rents on the basis of the Government's formula rents) in 2004/05. The continuation of this process in 2007/08 will produce an average rent increase of 5%, equivalent to £2.9m; however, some 2.6% (or £1.5m) of the increase will be 'clawed back' by Government via a worsening of the Authority's negative subsidy position.

4. Legal Implications

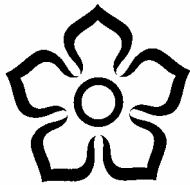
- 4.1 There are no legal implications associated with this report.

5. Report Author/Officer to contact:

Dave Pate, Service Director (Technical Services & Financial Support) Ext. 6801
 Graham Troup, Principal Accountant (HRA) Ext.7425

DECISION STATUS

Key Decision	No
Reason	Policy and Budget framework
Appeared in Forward Plan	Yes
Executive or Council Decision	Council



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FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

SCRUTINY
CABINET
COUNCIL

11 JANUARY 2007
15 JANUARY 2007
25 JANUARY 2007

HOUSING REVENUE ACCOUNT – BUDGET 2007/08

SUPPORTING INFORMATION

1. Revised Assessment for 2006/07

- 1.1 As shown in Appendix A, the original budget for 2006/07 forecasts a credit working balance of £2.295m to be carried forward into 2007/08. Current forecasts indicate that this balance will be £1.815m, which is a £0.480m adverse variance compared to the original budget.
- 1.2 This adverse variance is largely due to extra costs falling on the 2005/06 accounts as a result of capital financing decisions, which have reduced the size of balances carried forward into 2006/07.
- 1.3 A detailed report on the revised position for 2006/07 is being presented separately to the January round of Committees.

2. Base Budget for 2007/08

- 2.1 Appendix A shows the 2007/08 base budget for the HRA; this is the position on the account at existing levels of service and at current rent levels. Also shown are the variances between the 2007/08 budget and the corresponding original budget for 2006/07.
- 2.2 Details of the major variances are: -
- (i) Rent - dwellings

The reduction in rental income of £359,000 (prior to any rent increase) is due to: -

	£000
a) allowance for 300 'Right to Buy' and other sales during 2007/08 and the full year effect of 2006/07 sales;	700
b) there is an extra day's rent in 2007/08 financial year.	(185)
c) continued improvements in occupancy levels.	(156)
	<u>359</u>

(ii) Landlord Services

The increase of £757,000 is due to: -

	£000
a) allowances ranging from 2.25% to 2.5% for price inflation and pay awards	330
b) the full year effect of the large increase in energy prices (approximately 100% for gas and 70% for electricity) from 1 st June 2006.	240
c) additional costs of the Leicester Anti Social Behaviour Unit (LASBU) now being met by the HRA.	187
	<u>757</u>

The majority of the further increase in energy costs relates to the district heating service. This issue is considered later in the report at Section 5.

(iii) Repairs and Maintenance

Although this budget is showing a large increase of £2.115m, £1.8m of the increase is merely a presentational change. This is due to a different accounting treatment of programmed repairs expenditure which was previously included in the HRA Capital Programme, but is now being shown as revenue expenditure to comply with best accounting practice, as agreed with the Audit Commission. This change will have no net impact on the financial position of the HRA as there is a compensating change in the 'Capital Expenditure financed from Revenue Account' budget which has been reduced from the intended £2m to £0.2m (see below). The remaining increase in the budget is therefore £0.315m, which is effectively a substantial real reduction after allowing for inflation; this reflects lower maintenance costs resulting from high levels of recent capital investment and also a £400,000 reduction to the budget to take account of on-going efficiency savings.

(iv) Capital Financing Costs

The reduction of £614,000 is primarily due to a reduction in the interest rate (from 5.6% to 5.1%) following a rescheduling of the Authority's loans, offset by extra costs due to additional loans being raised for new capital financing.

(v) Prudential Borrowing Costs

The additional £118,000 is due to full year costs now being incurred on the £22.5m of prudential borrowing entered into up to the end of 2006/07.

(vi) Capital Expenditure Financed from Revenue Account (CERA)

The planned CERA for 2007/08 was £2.0m but due to the accounting changes noted above, this has been reduced to £0.2m.

(vii) Negative Subsidy

It can be seen from Appendix A that Negative Subsidy has increased by £2.140m between the 2006/07 and 2007/08 budgets. However, as capital financing costs are part of the subsidy calculation, it is necessary to combine this variance with the variance in capital financing costs (a reduction of £614,000) to obtain the total effective change in the negative subsidy position and this shows a net worsening of £1.526m. This worsening of Leicester's annual negative subsidy position follows a similar £1.5m worsening between 2005/06 and 2006/07. However, over the period 2003/04 to 2005/06 there was a combined improvement in the annual subsidy position of £6.8m, so the Government is now 'clawing back' some of these large earlier improvements.

These adverse subsidy changes are partly due to the Government providing less overall funding for housing subsidy (i.e. the 2007/08 draft national allocation is £133m less than for 2006/07); also, authorities such as Leicester, that gained significantly several years ago from the Government's review of the subsidy system, have lost out in recent years as continued protection has been given to authorities that initially lost subsidy, at the expense of the gaining authorities.

3. Service Developments

3.1 No service developments are proposed for 2007/08.

4. Rent-setting under the Rent Restructuring System

4.1 To comply with Government regulations, Leicester's HRA commenced the rent restructuring process in 2004/05. Under the system, all rents are set by a Government formula, taking account of local earnings levels, the value of the property and the number of bedrooms in the property.

4.2 Following the Government's review of its rent restructuring policy for 2006/07 (and later years), local authority rents are now 'catching up' with housing association rents at a faster rate than previously. Leicester's average rent increase for 2007/08 will therefore be 5%, which will produce extra rental income for the HRA of £2.896m. However, as noted earlier, £1.526m (53%) of this increased income is effectively 'clawed-back' by Government by a worsening of Leicester's negative subsidy position.

- 4.3 Appendix B gives details of the impact of the Government's revised rent restructuring formula on average rents for different categories of property. In accordance with the decision of 21st July 2003 meeting of the Cabinet (following the advice of the Housing & Community Safety Scrutiny Committee and the Housing Management Board), full usage has been made of the Government's permitted 5% tolerances to limit, as far as possible, large increase in rent levels. However, as can be seen from the range of increase listed for each category of properties in Appendix B, certain properties will still face large percentage increases despite the use of the tolerances, particularly where their base rent is low in comparison to other properties in their 'family'.

5. District/Communal Heating Charges

- 5.1 Members will recall that the Council's energy costs increased by around 100% for gas and 70% for electricity from 1st June 2006 and the 2007/08 budget allows for the full-year effect of these increases. As the energy markets have now stabilised, it is assumed there will be no further increase in these costs from 1st June 2007 when the Council's contracts again have to be renewed.
- 5.2 Despite the very large increase in energy costs to the district heating service during 2006/07, charges to tenants were 'only' increased by 10% for 2006/07, with those (approximately 3,000) tenants using the district heating service effectively receiving a subsidy of up to £0.6m from the HRA. It was also agreed to install meters in all properties receiving district heating, allowing tenants to control their energy usage, thereby reducing their own energy costs and those of the district heating service. However, the installation of meters has been delayed (while the specification was drawn-up, suitable contractors were identified and tenders obtained through EU Procurement rules) and it is now anticipated that the installation process will commence towards the end of the 2006/07 financial year.
- 5.3 Most, if not all, of the properties attached to the district heating/communal heating schemes should be converted to meters during 2007/08. This would allow tenants served via a district/communal heating scheme to be in the same position as other tenants in the city, i.e. they would have control over their energy consumption and therefore their energy costs.
- 5.4 If district/communal heating charges are not increased for 2007/08, the maximum subsidy for users in the year (depending on the rate at which meters are installed and lead to reduced energy usage) will be £776,000. An increase of 52% for 2007/08 would return the service to being 'self-financing'. Appendix C gives some options of various increases on district heating charges for 2007/08, at 10%, 20% and at a 52% increase, for Members' consideration.

6. Other Associated and Miscellaneous Charges

- 6.1 The recommendations for the levels of associated and miscellaneous charges (except for district heating charges) to be applied in 2007/08 are given in Appendix D.
- 6.2 In most cases, the increase recommended for 2007/08 is 4% (in line with Government guidelines) which overall will produce additional income for the HRA of £80,000.

7. Prudential Code – Impact on the HRA

- 7.1 The Local Government Act 2003 introduced new capital rules for local authorities, including the ‘Prudential Framework’ under which detailed regulation was replaced by a more flexible system of capital control, based upon authorities ability to meet revenue costs, and comply with CIPFA’s code of practice.
- 7.2 The key requirement of CIPFA’s code of practice is that authorities must agree a set of indicators that demonstrate that borrowing is affordable, sustainable and prudent. The authority’s full Council must approve the set of indicators at the same time at which it agrees the Council’s budget for the forthcoming year.
- 7.3 **Separate indicators are required for General Fund borrowing and HRA borrowing.** The code recommends a number of national indicators which all authorities must set. Authorities can also set local indicators, based upon local circumstances. Indicators relating to the HRA are in this report for approval by the Council.
- 7.4 The impact on unsupported borrowing of the proposals contained in this report is set out in paragraph 7.6. The indicators below and in Appendix E fully reflect: -
- (i) Recommendations made in this report regarding unsupported borrowing for investment in the HRA housing stock.
 - (ii) The Housing Capital Programme recommended for 2007/08 (elsewhere on this agenda).
- 7.5 The four national indicators for the HRA are given in Appendix E, while the two locally-determined indicators are given below as these are more significant in the context of the HRA’s proposed prudential borrowing: -

(i) Annual Movement in HRA Unsupported Borrowing

	2007/08 Estimate £000s	2008/09 Estimate £000s	2009/10 Estimate £000s
Historic Unsupported Borrowing b/fwd	21,620	23,820	23,796
New Unsupported Borrowing	3,100	1,000	1,000
Less Unsupported Borrowing Repaid	(900)	(1,024)	(1,064)
Total Unsupported Borrowing c/fwd	23,820	23,796	23,732

- (ii) The actual ratio of unsupported capital financing costs to net revenue stream for 2005/06 and estimates for the current year and for the period 2007/08 to 2009/10 are: -

	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
HRA Ratio	1.36%	2.49%	3.11%	3.27%	3.20%

7.6 An additional £3.1m of HRA capital expenditure has been included in the draft 2007/08 Housing Capital Programme to be financed by unsupported borrowing under the 'Prudential Framework'. This will result in £79,000 of revenue costs in 2007/08, £279,000 in 2008/09, £273,000 in 2009/10 and reducing in later years as principal repayments reduce the outstanding debt. It is the opinion of officers, having regard to the above indicators and the generally improved financial position of the HRA, that the HRA will be able to meet the ongoing revenue costs in future years. To assist Members in making the decision on whether or not to utilise the Prudential Borrowing Framework in 2007/08, officers have put together a prediction of the HRA up to 2010/11 (see Appendix F), which clearly shows the figures proposed are both affordable and prudent within the context of the HRA.

7.7 Also, during 2005/06, Cabinet approved the creation of an earmarked reserve – currently with a balance of £0.5m – to cover unforeseen increases in future prudential borrowing costs (e.g. due to increased interest rates). The existence of this reserve provides further reassurance that the proposed level of unsupported borrowing remains affordable and prudent.

8. Capital Expenditure charged to Revenue Account (CERA)

8.1 The financial position of the HRA for 2007/08 gives scope – in addition to the proposed £3.1m prudential borrowing for 2007/08 – for the HRA to make a CERA of £0.2m to supplement the HRA Capital Programme. This is in addition to the £1.8m of expenditure now shown in the revenue repairs budgets that was previously in the Capital Programme (as detailed earlier), and is already included in the 2007/08 HRA base budget shown at Appendix A.

This will further help to ensure that the Council meets the Decent Homes target and Business Plan developed under the Stock Options Appraisal, without (unlike prudential borrowing) committing any revenue resources beyond 2007/08.

9. Summarised Position for the 2007/08 HRA

9.1 The draft summarised position for the 2007/08 HRA is as follows: -

	<u>£000s</u>
Deficit on base budget (see Appendix A)	2,610
Average rent increase under Rent Restructuring (5%)	(2,896)
Possible maximum increase in District Heating Charges (52%)	(776)
Recommended increase in other Service Charges	(80)
2007/08 cost of £3.1m new prudential borrowing	79
	<hr/>
Net position for 2007/08 (surplus)	(1,063)
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Balances b/fwd 01.04.07	(1,815)
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Balances c/fwd 31.03.08	<u>(2,878)</u>

9.2 Members are reminded that Cabinet have set minimum HRA balances at £1.5m to meet any unforeseen expenditure or shortfall in income. The projected balances at 31st March 2008 of £2.878m as shown above are, therefore, some £1.4m above the minimum. These balances will be required as follows: -

- (a) to support the HRA Capital Programme, thereby helping to meet the Government's Decent Homes Standard by 2010;
- (b) to possibly fund the replacement of analogue with digital television services, depending on the outcome of discussions with NTL;
- (c) to allow for any future restriction of rental income due to the operation of the Government's rent restructuring and subsidy systems;
- (d) for the introduction of a Global Positioning System for the Housing Repairs Trading Services; and
- (e) to meet the cost of introducing the Council's new job evaluation scheme for staff employed in the HRA and Housing Repairs Trading Services.

FINANCIAL, LEGAL & OTHER IMPLICATIONS

10. Financial Implications

10.1 These are covered in the body of this report.

11. Legal Implications

11.1 There are no legal implications associated with this report.

12. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	Yes	13.1	
Policy	No		
Sustainable and Environmental	No		
Crime and Disorder	No		
Human Rights Act	No		
Elderly/People on Low Income	Yes	13.1	

13. Equal Opportunities Implications

13.1 Any reduction or restriction of HRA budgets directly affects the Council's ability to deliver high quality services that meet the needs and aspirations of Council tenants, many of whom are elderly and/or come from disadvantaged groups.

14. Background Papers – Local Government Act 1972

- 14.1 a) Budget Book 2006/07
b) Draft HRA Subsidy Determination 2007/08 (DCLG, 06.11.06)
c) Report of the Corporate Director of Adults & Housing and Chief Finance Officer on 'Budget Monitoring 2006/07 Period 7 – Housing Revenue Account & Housing Repairs Trading Services' to Housing & Community Safety Scrutiny Committee 11.01.07.
d) Report of the Corporate Director of Adults & Housing on 'Housing Revenue Account Budget 2007/08' to Housing Management Board 07.12.06.

15. Consultations

- 15.1 This is a joint report of the Corporate Director of Adults & Housing and the Chief Finance Officer. No other departments have been consulted.

16. Aims & Objectives

- 16.1 The overall Quality of Life Aim for the Housing Services is that 'a decent home is within the reach of every citizen of Leicester'.

17. Report Author/Officer to Contact

- 17.1 Dave Pate, Service Director (Technical Services & Financial Support) Ext. 6801
Graham Troup, Principal Accountant (HRA) Ext.7425

HOUSING REVENUE ACCOUNT

2005/06 Actual £000s		2006/07 Original Budget £000s	2007/08 Base Budget £000s	Variance £000s
	<u>Income</u>			
56,473	Rents- Dwellings	58,274	57,915	+359
5,050	Other Income	5,058	5,140	-82
61,523	Total Income	63,332	63,055	+277
	<u>Expenditure</u>			
15,507	Landlord Services	16,122	16,879	+757
22,334	Repairs & Maintenance	22,430	24,545	+2,115
	Contribution to Bad			
224	Debt Provision	500	400	-100
10,267	Capital Financing costs	10,827	10,213	-614
1,338	Prudential Borrowing Costs	1,862	1,980	+118
5,000	Capital Expenditure financed from Revenue Account (CERA)	4,000	200	-3,800
7,977	Negative Subsidy	9,308	11,448	+2,140
62,647	Total Expenditure	65,049	65,665	+616
1,124	(Surplus)/Deficit for year	1,717	2,610	+893
(4,495)	Working Balance b/fwd	(4,012)	(1,815)	
(3,371)	Working Balance c/fwd	(2,295)	795	

Notes:

1. In the Variance column, a favourable variance (i.e., reduced expenditure or increased income) is denoted by a negative sign, while an adverse variance (i.e., increased expenditure or reduced income) is denoted by a positive sign.
2. Credit (i.e., favourable) balances are denoted by brackets

PROJECTED RENT MOVEMENTS 2006/07 TO 2007/08

Property Type	2006/07	2007/08			
	Average Weekly Rent £	Average Weekly Rent £	Average Increase %	Ranging	
				From %	To %
Bedsit	35.86	37.96	5.9	2.3	6.6
1 bed flat	42.78	45.01	5.2	2.4	6.3
1 bed house	47.59	49.55	4.1	1.1	5.9
2 bed flat	50.49	53.11	5.2	2.5	5.9
2 bed house	53.07	55.63	4.8	2.0	6.4
3 bed flat	55.84	58.76	5.2	3.9	5.5
3 bed house	57.17	60.08	5.1	2.3	6.1
4+ bed house	65.70	68.92	4.9	-0.6	5.5
All stock	51.57	54.15	5.0		

Rents are shown on a 50 week basis

**REVIEW OF ASSOCIATED, MISCELLANEOUS CHARGES AND MISCELLANEOUS PAYMENTS
ASSOCIATED CHARGES**

DISTRICT HEATING CHARGES		CURRENT CHARGE	PROPOSED CHARGE	PROPOSED CHARGE	PROPOSED CHARGE	PROPOSED CHARGE
(per week – 50 week year)			OPTION 1 (No Increase)	OPTION 2 (10%)	OPTION 3 (20%)	OPTION 4 (52%)
		2006/07	2007/08	2007/08	2007/08	2007/08
		£. p	£. p	£. p	£. p	£. p
1 Bedroom dwelling	Heating	5.68	5.68	6.24	6.82	8.62
	Hot Water	2.84	2.84	3.12	3.41	4.31
2 Bedroom dwelling	Heating	7.14	7.14	7.86	8.56	10.86
	Hot Water	3.57	3.57	3.93	4.28	5.43
3 Bedroom dwelling	Heating	8.50	8.50	9.34	10.20	12.92
	Hot Water	4.25	4.25	4.67	5.10	6.46
4 Person dwelling	Heating	9.92	9.92	10.90	11.90	15.08
	Hot Water	4.96	4.96	5.45	5.95	7.54
GOSCOTE HOUSE						
Small Bedsit	Heating	4.26	4.26	4.68	5.10	6.48
	Hot Water	2.13	2.13	2.34	2.55	3.24
1 Bedroom flat	Heating	4.98	4.98	5.48	5.98	7.56
	Hot Water	2.49	2.49	2.74	2.99	3.78
2 Person flat	Heating	5.68	5.68	6.24	6.82	8.62
	Hot Water	2.84	2.84	3.12	3.41	4.31

OTHER SERVICE CHARGES

The Housing Department administers a plethora of charges associated with providing services to tenants as part of their rent. Officers propose the following for Members consideration.

(i) Use of Guest Room (Sheltered Housing Schemes)

The charge for use of the guest room at Sheltered Housing Schemes is not capable of precise calculation. Last year the charge was increased by 50p because no increase had been applied for a number of years. It is therefore recommended that no increase be applied to this charge for 2007/08.

(ii) Replacement Pass Books or Rent Cards

Last year the charge for a replacement pass book or rent book was increased by £1.50, to £2.50 - the first increase in ten years. The charge for a replacement pass book or rent card is intended to cover the cost involved in supplying and updating the new document. It is therefore recommended that no increase be applied to this charge for 2007/08.

(iii) Information on Mortgages and Property Types/Conditions etc

The Department continues to receive a large number of requests for ad hoc information in connection with mortgages and property type/condition etc. As the work involved is very time consuming, it is felt appropriate to levy the charge on all requests for information in connecting with mortgages and property types and condition etc, excluding those requests from tenants for information in connection with tenant's statutory rights under Right to Buy legislation.

Last year the charge was increased by £60, to £75 - the first increase for a number of years. It is therefore recommended that no increase be applied to this charge for 2007/08.

(iv) Hostel Charges

It is recommended that the charge for hostel rent is increased by 5% to cover inflation, additional energy costs (gas and electricity). This increase will qualify for Housing Benefit payments.

(v) Other Charges

All other charges to increase in line with the Government's guideline figure of 4%.

Miscellaneous Payments

The current list of payments is considered reasonable and therefore no increase is recommended on this occasion.

NATIONALLY-SET HRA PRUDENTIAL INDICATORS

The four nationally-set HRA Prudential Indicators are as follows:

- i) The actual ratio of financing costs to net revenue stream for 2005/06 and estimates for the current year and for the period 2007/08 to 2009/10 are:-

	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
HRA Ratio	16.45%	16.47%	16.96%	17.05%	16.86%

- ii) The estimated incremental impact on average weekly rents of capital investment decisions proposed in the HRA budget report, over and above capital investment decisions that have previously been taken by the Council are:

	2007/08	2008/09	2009/10
HRA Rent (£52.07)	£0.07*	£0.23*	£0.22*

* based on 2007/08 average recommended weekly rent of £52.07.

The average weekly rent recommended for 2007/08 is £52.07 (52-week basis). In practice, this indicator (which is intended to show the effect of rent increases arising from capital investment) cannot achieve its purpose as rents are set by the Government's rent formula.

- iii) The actual capital expenditure incurred in 2005/06 and estimates of capital expenditure to be incurred in the current financial year and for the period 2007/08 to 2009/10 (based upon the HRA Capital Programme recommended to Council on 25th January 2007) are:

	2005/06 Actual £000s	2006/07 Estimate £000s	2007/08 Estimate £000s	2008/09 Estimate £000's	2009/10 Estimate £000's
HRA Capital Spend	36,302	25,719	24,320	20,190	19,990

- iv) The Capital Financing Requirement measures the authority's underlying need to borrow for a capital purpose. On 24th November 2003, the Cabinet agreed the latest CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cash flows both positive and negative, and manages its treasury position in terms of its borrowing and investments in accordance with its approved Treasury Management Strategy and Practices. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from capital spending. By contrast, the Capital Financial Requirement reflects the authority's underlying need to borrow for capital purposes.

The actual HRA Capital Financial Requirement in 2005/06 and estimates of the Capital Financing Requirement for the current financial year and the period 2007/08 to 2009/10 (subject to the agreement of the Housing Capital Programme by Council on 25th January 2007) are:

	31.03.06 Actual £000s	31.03.07 Estimate £000s	31.03.08 Estimate £000s	31.03.09 Estimate £000's	31.03.10 Estimate £000's
HRA Capital Financing Requirement	187,185	198,545	206,245	211,721	217,157

CIPFA's Prudential Code for Capital Finance specifies the requirement that over the medium term net borrowing will only be for capital purposes, and that authorities should ensure that net borrowing 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 Capital Financing Requirement for the current and next two financial years. **Based upon current capital commitments and proposals in this budget report, there are not anticipated to be any difficulties for the current or future years, assuming the present subsidy regime remains significantly unchanged.**

HRA PROJECTIONS 2006-11

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Dwellings Rents	58,423	60,811	62,873	65,248	67,703
Other Income	5,108	5,996*	5,650	5,951	6,274
Total Income	63,531	66,807	68,523	71,199	73,977
Management	16,332	16,879	17,215	17,559	17,911
Repairs & Maintenance	24,230	24,545	24,909	25,124	25,590
Bad debts provision	500	400	400	400	400
Revenue contribution to capital	2,200	200	1,200	1,200	2,200
Prudential borrowing costs	1,580	2,059	2,240	2,281	2,323
Capital Financing costs	10,394	10,213	10,494	10,774	11,055
Negative Subsidy	9,851	11,448	12,321	13,371	14,465
Total Expenditure	65,087	65,744	68,779	70,709	73,944
Deficit/(Surplus)	1,556	(1,063)	256	(490)	(33)
Balances b/fwd	(3,371)	(1,815)	(2,878)	(2,622)	(3,112)
Balances c/fwd	(1,815)	(2,878)	(2,622)	(3,112)	(3,145)

* Note

'Other income' for 2007/08 assumes District Heating charges will be increased by 52% to return the service to being self-financing. If charges are increased by less than 52%, income (and balances) will be reduced by £149,000 for each 10% increase forgone.