



Leicester
City Council

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FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Overview & Scrutiny Management Board	22 January 2009
Cabinet	26 January 2009
Council	29 January 2009

HOUSING REVENUE ACCOUNT – BUDGET 2009/10

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

1. Purpose of Report and Summary

- 1.1 This report summarises the financial position of the Housing Revenue Account (HRA) for 2008/09 and 2009/10. The approval of Members is sought for setting rents for 2009/10 again based on the Government's "formula rents", and Members are asked to determine the levels of service charges to be applied in 2009/10.

2. Recommendations

- 2.1 The Adults & Housing Directorate and Corporate Directors Board are recommended to note the report.
- 2.2 The Cabinet is asked to consider the report, and recommend Council to:-
- i) note the estimated working balance of £4.573m at the start of 2009/10 and approve the base budget for 2009/10 as detailed at Appendix A, including using £2.519m to support the Housing Capital Programme in 2009/10;
 - ii) consider the issues outlined in the body of the report and, in particular, the comments of the Performance Panel, which will be reported at the meeting;
 - iii) Consider the Equality Impact Assessment appended to this report;
 - iv) approve the setting of rents for 2009/10 on the basis of "formula rents" and within the ranges shown in Appendix B, noting that different properties will attract different increases subject to the maximum individual increase being 7%, and the overall average, in terms of income generated, will equate to a 5.9% increase;
 - v) approve the revised level of miscellaneous payments and charges to be applied in 2009/10, as detailed in Appendix C;

- vi) delegate authority to Cabinet to review and set the revised level of charge for district heating when a new contract is negotiated.
- vii) approve the “prudential indicators” for the HRA, as detailed in Section 3.7 of the report and Appendix D;
- (viii) approve that £15,000 be added to the 2009/10 budget (and £53,000 in 2010/11 and then reducing in later years, as more principal repayments are made) to facilitate £0.6m of new prudential borrowing being used to finance the 2009/10 HRA Capital Programme.

3. Report

3.1 Revised Assessment for 2008/09

As shown in Appendix A, the original budget for 2008/09 forecast a credit working balance of £4.378m, to be carried forward into 2009/10. Current forecasts indicate that this balance will be £4.573m, which represents an approximate £0.2m net favourable variance compared to the original budget. This net variance comprises the following:-

	<u>£m</u>
(a) Additional income from dwellings rents – due to economic conditions, since the latter half of 2007/08, Right to Buy (RTB) sales have declined substantially from the ‘normal’ level of about 250 per annum, and are expected to number only 60 in 2008/09.	(0.5)
(b) Unbudgeted revenue contribution towards financing of the 2008/09 HRA Capital Programme, as reported elsewhere on this agenda.	0.7
(c) Reduced requirement for a contribution to the Bad Debt Provision, due to generally improved rent collection performance.	(0.2)
(d) Savings in prudential borrowing costs, since prudential borrowing in 2007/08 was lower than allowed for in the 2008/09 budget.	(0.3)
(e) Extra gas costs on the district heating function (£700,000 above budget) have largely been recovered by increased charges to non-tenant and tenant users of the service, leaving an unrecovered amount in the year of some £100,000.	0.1
Net favourable variance	<u>(0.2)</u>

3.2 Base Budget for 2009/10

Appendix A shows the 2009/10 base budget for the HRA; this is the position on the account at existing levels of service (with allowances for pay awards and price increases) and at current rent levels. Full allowance has already been made in the base budget for the increase in gas costs for the District Heating service, which applied from 1 October 2008, and for the increase in District Heating charges, which applied from 10 November 2008.

Details of the major variances are:-

i) Dwellings Rents

The 2009/10 Dwellings Rents budget is showing an increase of £227,000 compared to the original 2008/09 budget, even before the rent increase for 2009/10. This is because, due to the very large reduction in RTB sales as noted above, the likely level of dwellings rental income in 2008/09 is about £0.5m above the original budget; even when this figure is reduced to allow for RTB and other stock reductions in 2009/10, the resultant figure is still above the original 2008/09 budget.

ii) Other Income

This summary budget head comprises income from non-dwellings rents (ie, from garages, shops, land, etc), flat services charges, district heating charges and interest on HRA balances. The increase of £1.3m is due to the full year effect of the 76% increase in district heating charges, which was effective from 10th November 2008.

iii) Repairs and Maintenance

The increase of £917,000 is due to allowances for pay awards and price increases.

iv) Landlord Services

The increase of £1,674,000 is due to allowances for pay awards and price increases, and includes £1,460,000 for increased energy costs, mainly on the district heating function.

v) Capital Financing Costs

The increase in capital financing costs of £458,000 is mainly due to interest charges on higher HRA borrowing, and higher allowances for debt re-scheduling costs. All of these costs are fully-reimbursed as part of the subsidy calculation (see below).

vi) Prudential Borrowing Costs

The reduction of £342,000 is due to the amount of prudential borrowing used for financing of the 2007/08 HRA Capital Programme being less than allowed for in the budget.

vii) Negative Subsidy

It can be seen from Appendix A that Negative Subsidy has increased by £1.931m between the 2008/09 and 2009/10 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 (an increase of £0.458m) to obtain the total effective change in the negative subsidy position, and this shows a worsening of £2.389m. This worsening of Leicester's annual negative subsidy position follows a similar £4.9m worsening between 2005/06 and 2008/09. The overall worsening of the annual subsidy position of £7.3m since 2005/06 compares to the improvement of £6.8m between 2003/04 and 2005/06 following the Government's revision of the subsidy calculation. Therefore, the Government has now completely 'clawed back' (and gone beyond) all of the large earlier improvements.

These adverse subsidy changes are mainly due to the Government's policy of not allowing local authorities to retain the full amount of additional income resulting from the large, well above inflation, average annual rent increases due to the Government's rent re-structuring process. The subsidy system is the means by which the Government claws back a large part of the additional rental income each year. This issue is considered later, in paragraph 3.4.3.

3.3 Service Developments

3.3.1 No 'service developments' are proposed for 2009/10.

3.4 Rent Setting under the Rent Re-Structuring System

3.4.1 To comply with Government regulations, Leicester's HRA commenced the rent re-structuring process in 2004/05. Under this 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. The Government's original intention was that, under the formula rent system, local authority rents would increase at a faster rate than Housing Association rents so that, by 2011/12, rent levels on comparable properties in the two sectors would be similar.

3.4.2 However, to avoid having extremely large annual rent increases in the last part of the original re-structuring period, the Government last year extended the convergence period to 2016/17 and has now further extended this to 2024/25. Also, individual rent increases for 2009/10 are capped at 7%.

3.4.3 Even with the extended convergence period and the 7% cap, Leicester's average rent increase for 2009/10 will be 5.9%, which will produce extra rental income for the HRA of £3.723m. However, as noted earlier, £2.389m (64%) of this increased income is

effectively “clawed back” by the Government by a worsening of Leicester’s negative subsidy position.

3.4.4 Appendix B gives details of the impact of the Government’s revised rent re-structuring formula on average rents for different categories of property. In accordance with the decision of the 21 July 2003 meeting of the Cabinet (following the advice of the Housing and 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 increases in rent levels. However, as can be seen from the ranges of increases listed for each category of properties in Appendix B, certain properties will still face the maximum 7% increase, despite the use of the tolerances, particularly where their base rent is low in comparison with other properties in their “family”.

3.4.5 However, **in considering these proposals Members must consider them alongside the Equality Impact Assessment** and satisfy themselves that any decision does not disadvantage any group of people, or at least that adequate safeguards have been put in place to mitigate against the impact of the revised charge being applied.

3.5 District Heating Charges

3.5.1 A report was presented to the 1 October 2008 meeting of the Cabinet, giving details of the 157% increase in gas costs for the District Heating service for the year commencing 1 October 2008. It was resolved to increase district heating charges to tenants by 76% from 10 November 2008 which, assuming gas costs remain at the same level on renewal of the contract from 1 October 2009, would achieve ‘break-even’ on the District Heating account over the two financial years 2008/09 and 2009/10.

3.5.2 Once the price for renewal/extension of the District Heating gas contract is known, a further report will be presented on the implications for charges to tenants on the district heating scheme.

3.6 Other Associated and Miscellaneous Charges

3.6.1 Unlike the setting of rents, service charges are within the discretion of local authorities, although the Government does issue a suggested (or ‘guideline’) increase which is 0.5% above the inflation rate as measured by the Retail Price Index; for 2009/10 this would give an increase of 5.5% and produce additional income of £136,000.

3.6.2 The recommendations for the levels of associated and miscellaneous charges (except for district heating charges) to be applied in 2009/10 are given in Appendix C.

3.7 Prudential Code – Impact on the HRA

3.7.1 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.

3.7.2 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.

3.7.3 **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.

3.7.4 The impact on unsupported borrowing of the proposals contained in this report is set out in paragraph 3.7.6. The indicators below and in Appendix D 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 2009/10 (elsewhere on this agenda).

3.7.5 The four national indicators for the HRA are given in Appendix D, 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

	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
Historic Unsupported Borrowing b/fwd	19,647	19,357	19,253
New Unsupported Borrowing	600	810	2,560
Less Unsupported Borrowing Repaid	(890)	(914)	(947)
Total Unsupported Borrowing c/fwd	19,357	19,253	20,866

ii) The actual ratio of unsupported capital financing costs to net revenue stream for 2007/08 and estimates for the current year and for the period 2009/10 to 2011/12 are:-

	2007/08 Actual	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
HRA Ratio	2.82%	2.72%	2.52%	2.41%	2.38%

3.7.6 An additional £0.6m of HRA capital expenditure has been included in the 2009/10 Housing Capital Programme, to be financed by unsupported borrowing under the 'Prudential Framework'. This will result in £15,000 of revenue costs in 2009/10, £53,000 in 2010/11, 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 2009/10, officers have put together a prediction of the HRA up to 2013/14 (see Appendix E), which clearly shows the figures proposed are both affordable and prudent within the context of the HRA.

3.7.7 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 (eg, due to increased interest rates). The existence of this reserve provides further reassurance that the proposed level of unsupported borrowing remains affordable and prudent.

3.8 Capital Expenditure charged to Revenue Account (CERA)

3.8.1 The financial position of the HRA for 2009/10 gives scope – in addition to the proposed £0.6m prudential borrowing for 2009/10 – for the HRA to make a CERA of £2.519m to supplement the HRA Capital Programme.

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 2009/10.

3.9 Summarised Position for the 2009/10 HRA

3.9.1 The draft summarised position for the 2009/10 HRA is as follows:-

	<u>£000s</u>
Deficit on base budget (see Appendix A)	3,078
Average rent increase under Rent Restructuring (5.9%)	(3,723)
Recommended increase in Service Charges (excluding district heating)	(136)
CERA – for financing of HRA Capital Programme	2,519
2009/10 cost of £0.6m new prudential borrowing	15
	<hr/>
Net position for 2009/10 (deficit)	1,753
Balances b/fwd 01.04.09	(4,573)
	<hr/>
Balances c/fwd 31.03.10	<u>(2,820)</u>

3.9.2 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 of £2.820m at 31 March 2010 are, therefore, some £1.3m 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 2011;

- (b) to allow for any future restriction of rental income or increases in negative subsidy, due to the operation of the Government's rent re-structuring and subsidy systems;
- (c) also, the Government is considering introducing a scheme for HRA's to "buy" their way out of the negative subsidy system, and having relatively high balances will be useful in this respect.

4. Financial Implications (Graham Troup – extn: 29 7425)

- 4.1 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 £4.573m at 1 April 2009.
- 4.2 Leicester commenced property-specific rent re-structuring (ie, setting rents on the basis of the Government's formula rents) in 2004/05. Under this process, it was intended that Local Authority rents would be in line with the rents on equivalent Housing Association properties by 2011/12. However, to avoid having extremely large annual rent increases in the last part of the original re-structuring period, the Government last year extended the convergence period to 2016/17 and has now further extended this to 2024/25. Even so, the Government's revised formula will produce an average rent increase of 5.9% for Leicester's HRA for 2009/10, equivalent to £3.7m extra income; however, £2.4m (64%) of the increase will be "clawed back" by the Government via a worsening of the Authority's negative subsidy position.

5. Legal Implications (Joanna Bunting – extn: 29 6450)

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

6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	Yes	7.1	
Policy	No		
Sustainable and Environmental	No		
Crime and Disorder	No		
Human Rights Act	No		
Elderly/People on Low Income	Yes	7.1	

7. Equal Opportunity Implications

- 7.1 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.

8. Background Papers – Local Government Act 1972

- 8.1 (a) Budget Book 2008/09
- (b) Draft HRA Subsidy Determination 2009/10 (DCLG, November 2008)
- (c) Report of the Corporate Director of Adults and Housing and Chief Finance Officer on “Housing Revenue Account – Budget 2008/09” to Housing Management Board 10.01.08, Cabinet 21.01.08 and Council 24.01.08.
- (d) Report of the Corporate Director of Adults and Housing on “Review of Housing Revenue Account District Heating Charges” to Cabinet 01.10.08.

9. Consultations

- 9.1 This is a joint report of the Interim Corporate Director of Adults & Housing and the Chief Finance Officer. All departments have been consulted through the Corporate Directors Board. The Trade Unions and Housing Performance Panel have also been consulted as part of the formal consultative procedures.

10. Aims and Objectives

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

11. Report Author

Dave Pate, Service Director (Housing Improvement and Repairs Service) – extn: 29 6801.

Graham Troup, Principal Accountant (HRA) – extn: 29 7425.

Key Decision	Yes
Reason	Is significant in terms of its effect on communities living or working in an area comprising more than one ward
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)

Housing Revenue Account

2007/08 Actual £000s		2008/09 Original Budget £000s	2009/10 Base Budget £000s	Variance £000s
	<u>Income</u>			
60,755	Dwellings Rents	62,868	63,095	-227
5,828	Other Income	5,607	6,935	-1,328
66,583	<u>Total Income</u>	68,475	70,030	-1,555
	<u>Expenditure</u>			
24,580	Repairs & Maintenance	25,633	26,550	+917
15,590	Landlord Services	16,901	18,575	+1,674
(96)	Contribution to Bad Debt provision	400	200	-200
10,422	Capital Financing Costs	10,096	10,554	+458
1,876	Prudential Borrowing Costs	2,190	1,848	-342
2,400	Capital Expenditure financed from Revenue Account (CERA)	-	-	-
10,149	Negative Subsidy	13,450	15,381	+1,931
64,921	<u>Total Expenditure</u>	68,670	73,108	+4,438
(1,662)	(Surplus)/Deficit for year	195	3,078	+2,883
(2,911)	Working Balance b/fwd	(4,573)	(4,573)	
(4,573)	Working Balance c/fwd	(4,378)	(1,495)	

Notes:-

1. In the 'variance' column, a favourable variance (i.e. reduced expenditure or increased income) is denoted by a negative sign, whilst 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 2008/09 to 2009/10

Property Type	2008/09	2009/10			
	Avg Weekly Rent	Avg Weekly Rent	Avg Increase	Ranging	
	£	£	%	from %	to %
Bedsit	41.01	43.58	6.3%	3.8%	7.0%
1 bed flat	47.69	50.51	5.9%	3.5%	7.0%
1 bed house	51.88	54.74	5.5%	4.8%	7.0%
2 bed flat	56.17	59.49	5.9%	3.3%	7.0%
2 bed house	58.68	62.11	5.8%	3.5%	7.0%
3 bed flat	62.16	65.87	6.0%	5.1%	6.8%
3 bed house	63.59	67.44	6.1%	3.9%	7.0%
4+ bed house	73.07	77.56	6.1%	4.3%	7.0%
All stock	57.23	60.63	5.9%		

Note: -

Rents are shown on a 50 week basis

OTHER SERVICE CHARGES

The Adults and 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. In 2006/07, 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 2009/10.

(ii) Replacement Rent Swipe Cards

The Council is replacing Rent Cards with Rent Swipe Cards from 6th April 2009. It is intended to maintain the same charge for replacing lost cards under the new system as that applied under the current system. The charge of £2.50 will cover the cost involved in supplying and updating the new card. It is, therefore, recommended that the charge for replacing Rent Swipe Cards is £2.50 for 2009/10.

(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 connection with mortgages and property types and condition, etc., excluding those requests from tenants for information in connection with tenants' statutory rights under Right to Buy legislation.

In 2006/07, the charge was increased to £75 – the first increase for a number of years. It is, therefore, recommended that this charge now be increased to £80 from 2009/10.

(iv) Hostel Charges

It is recommended that the charge for hostel rent is increased by 5% to cover inflation and 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 5.5%.

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 2007/08 and estimates for the current year and for the period 2009/10 to 2011/12 are:-

	2007/08 Actual	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate	2011/12 Estimate
HRA Ratio	16.30%	16.29%	15.35%	14.94%	14.47%

- 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:-

	2009/10	2010/11	2011/12
HRA Rent (£58.30)	£0.01*	£0.04*	£0.04*

* based on 2009/10 average recommended weekly rent of £58.30.

The average weekly rent recommended for 2009/10 is £58.30 (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 2007/08 and estimates of capital expenditure to be incurred in the current financial year and for the period 2009/10 to 2011/12 are:-

	2007/08 Actual £000s	2008/09 Estimate £000s	2009/10 Estimate £000s	2010/11 Estimate £000s	2011/12 Estimate £000s
HRA Capital Spend	22,270	21,377	22,151	21,187	17,394

- iv) The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. On 24 November 2003, the Cabinet agreed the latest CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any

APPENDIX D (continued)

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 Financing Requirement reflects the Authority's underlying need to borrow for capital purposes.

The actual HRA Capital Financing Requirement in 2007/08 and estimates of the Capital Financing Requirement for the current financial year and the period 2009/10 to 2011/12 are:-

	31.03.08 Actual £000s	31.03.09 Estimate £000s	31.03.10 Estimate £000s	31.03.11 Estimate £000s	31.03.12 Estimate £000s
HRA Capital Financing Requirement	201,342	206,368	211,578	216,974	218,587

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 2008-2014

	2008/09 £000s	2009/10 £000s	2010/11 £000s	2011/12 £000s	2012/13 £000s	2013/14 £000s
Dwellings Rents	63,339	66,818	70,509	74,235	78,154	82,276
Other Income	6,107	7,071	7,297	7,567	7,848	8,140
Total Income	69,446	73,889	77,806	81,802	86,002	90,416
Repairs and Maintenance	25,633	26,550	27,150	27,700	28,200	28,700
Landlord Services	17,534	18,575	19,318	20,091	20,894	21,730
Bad Debts Provision	200	200	200	200	200	200
Capital Financing Costs	10,787	10,554	10,828	10,966	10,966	10,966
Prudential Borrowing Costs	1,892	1,863	1,860	1,904	2,086	2,262
Capital Expenditure financed from Revenue Account (CERA)	710	2,519	1,300	1,300	1,250	1,250
Negative Subsidy	12,690	15,381	17,541	19,976	22,695	25,569
Total Expenditure	69,446	75,642	78,197	82,137	86,291	90,677
(Surplus)/Deficit for Year	0	1,753	391	335	289	261
Balances b/fwd	(4,573)	(4,573)	(2,820)	(2,429)	(2,094)	(1,805)
Balances c/fwd	(4,573)	(2,820)	(2,429)	(2,094)	(1,805)	(1,544)