

## **WIRRAL COUNCIL**

### **COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE**

**19 NOVEMBER 2009**

### **REPORT OF THE DIRECTOR OF FINANCE**

#### **GENERAL FINANCIAL MATTERS**

##### **1. EXECUTIVE SUMMARY**

- 1.1. This report provides information on the treasury management position, monitoring of the prudential indicators, the position regarding Council Tax, National Non Domestic Rate, general debt and cash income collection and the payment of benefits.

##### **2. CURRENT ECONOMIC ENVIRONMENT**

- 2.1. This time last year banks around the world were being nationalised at an alarming rate and the full impact of the credit crisis was just being realised. The consensus now seems to suggest that, one year on; we may have reached the bottom of this recession. This does not, however, mean there will be an immediate and swift return to growth. Opinion on how to deal with the economic problems may differ but opinion is converging on the fact that it will be a good number of years before the UK economy returns to the type of growth experienced and enjoyed in recent years.
- 2.2. Inflation figures for September 2009 are CPI falling to 1.6% and RPI at -1.3%. These figures are likely to go lower over the next few months and there is little chance of a significant increase in 2010.
- 2.3. The Bank of England (BoE) base rate remains at 0.5% and is forecast to remain at this level throughout 2009 and 2010. The BoE has so far injected £175 billion into the economy through its Quantitative Easing (QE) programme to try and increase bank lending and stimulate growth. An update of the effectiveness of QE will be carried out in the BoE November inflation report. If economic figures do not show significant improvements it is likely that the QE programme will be increased to £200 billion.

##### **3. THE COUNCIL TREASURY POSITION**

- 3.1. Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the “management of the Council’s cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks”. This Council has adopted the Code and complies with its requirements.
- 3.2. The Treasury Management Strategy, including the Annual Investment Strategy and Prudential Indicators, was approved by Cabinet on 19 March 2009.

**Table 1: Summary of Treasury Position**

Investments	Balance at 31 Jul 2009 £m	%	Maturing Investments £m	New Investments £m	Balance at 30 Sep 2009 £m	%
Internal managed investments	98	100	73	79	104	100
<b>TOTAL INVESTMENTS</b>	<b>98</b>	<b>100</b>	<b>73</b>	<b>79</b>	<b>104</b>	<b>100</b>

Borrowings	Balance at 31 Jul 2009 £m	%	Maturing Borrowings £m	New Borrowings £m	Balance at 30 Sep 2009 £m	%
Long-term fixed rate	274	100	0	0	274	100
Long-term variable rate	0	0	0	0	0	0
Temporary borrowing	0	0	0	0	0	0
<b>TOTAL BORROWING</b>	<b>274</b>	<b>100</b>	<b>0</b>	<b>0</b>	<b>274</b>	<b>100</b>

<b>NET BORROWING</b>	<b>176</b>				<b>170</b>	
----------------------	------------	--	--	--	------------	--

#### 4. INVESTMENTS

4.1. The Treasury Management Team can invest money for periods varying from 1 day to 10 years, in accordance with the Treasury Management Strategy, to earn interest until the money is required by the Council. These investments arise from a number of sources including:-

- General Fund Balances
- Reserves and Provisions
- Grants received in advance of expenditure
- Money borrowed in advance of capital expenditure
- Schools' Balances
- Daily Cashflow/ Working Capital

4.2. As at 30 September 2009 the Council held investments of £104m. The table below details these investments;

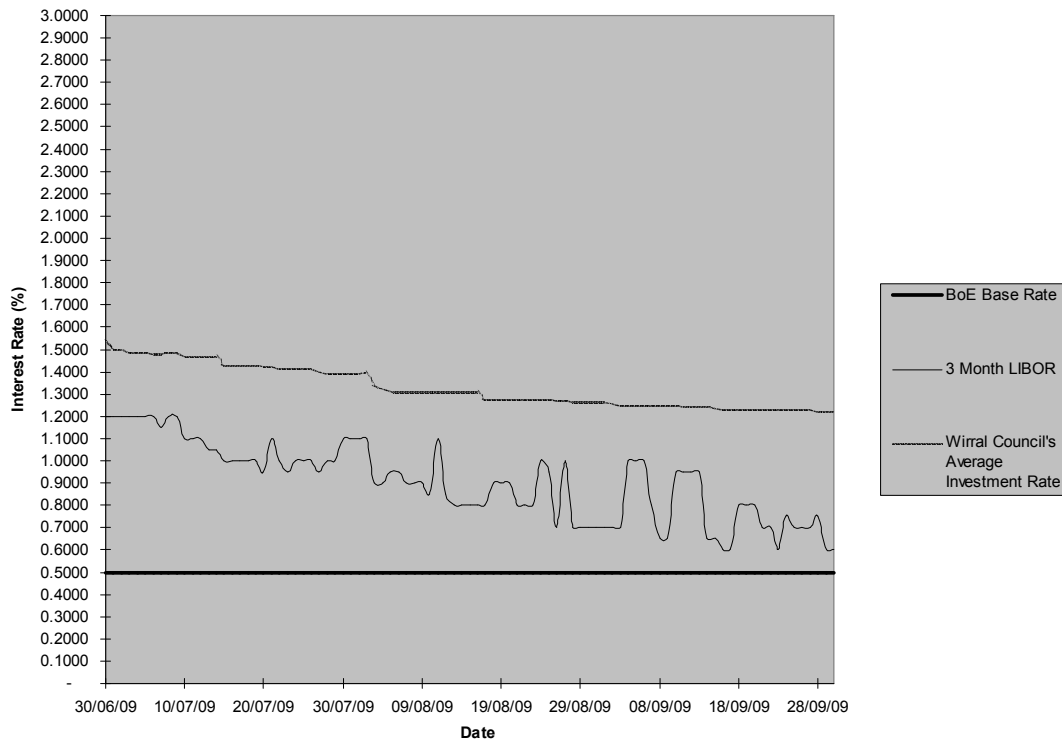
**Table 2: Investments as at 30 September 2009**

Investments with:	£m
UK Banks	59
Building Societies	17
Money Market Funds	27
Gilts	1
<b>TOTAL</b>	<b>104</b>

4.3. Of the above investments £46m is invested in instant access funds, £54m is invested for up to 1 year, £2m is invested for up to 2 years and £2m is invested for up to 5 years.

4.4. The average rate of return on investments as at 30 September 2009 was 1.61%. The graph below shows the Treasury Management Team rate of return against the Bank of England base rate and the 3 month LIBOR (the inter bank lending rate);

**Chart 1: Investment Rate of Return in 2009/10**



- 4.5. The rate at which the Council can invest money has fallen considerably over the year, in line with the falling BoE base rate.
- 4.6. Since November 2008 the Council has maintained a more restrictive policy on new investments by only investing in UK institutions AA- rated or above that have received Government guarantees of support, if required. The Council also continues to invest in AAA rated money market funds and the Debt Management Office (DMO).
- 4.7. The 2009/10 investment income budget has been reduced to £1.3m to reflect the low interest rates that are anticipated to continue throughout the financial year. With low interest rates it is unlikely that the Authority will achieve the large surpluses that have been made in the past few years.
- 4.8 The security of the investments always takes priority over the returns.

***Icelandic Investment***

- 4.9. This Council had deposits of £2m with Heritable Bank and Members have received regular updates regarding the circumstances and the current situation. In March 2009 an Audit Commission report confirmed that Wirral Council had acted, and continues to act, prudently and properly in all its investment activities.
- 4.10 Based on present information, the Administrator's projections indicate a base case return to creditors of 70-80 pence in the pound. If conditions improve over this period the final recovery could be higher than the base case and I remain confident that the money will be repaid in full.

- 4.11. If, however, Heritable Bank is unable to repay in full I have also made a pre-emptive claim against Landsbanki Islands HF for the difference. When the Council originally invested with Heritable Bank it did so with Landsbanki Islands HF providing a guarantee to reimburse the Council should Heritable be unable to repay. Hence, I have considered it prudent to make a pre-emptive claim. It should be noted that Landsbanki Islands HF is also in administration.
- 4.12. The first payment from the Administrators of £339,668.95, 16.13% of the deposit and accumulative interest, was returned to the Council on 28 July 2009. In December 2009 a further payment of approximately £210,000 is expected and so the Council will have received more than a quarter of its investment back. Regular payments are expected in the next few years.

## 5. BORROWING

- 5.1. The Council undertakes borrowing to help fund capital expenditure. In 2009/10 the capital programme requires borrowing of £28m. However, to date no additional borrowing has been undertaken. The table below shows the total borrowing of the Council as at 30 September 2009.

**Table 3: Borrowing as at 30 September 2009**

<b>Borrowing</b>	<b>£m</b>
PWLB	100
Market Loans	174
<b>TOTAL</b>	<b>274</b>

- 5.2. The Council is able to borrow from two main sources, either from the Public Works Loan Board (PWLB), which is effectively borrowing from the Government, or from the Market, i.e. direct from the banks.
- 5.3. As the year progresses an assessment will be made as to the best time to borrow money. Currently, as the rate of return from investments has diminished and the perceived risk of investments has increased, it has become more appropriate to reduce the level of investment.
- 5.4. By not reinvesting money as investments mature I am able to use this money to temporarily fund capital expenditure. This, therefore, temporarily reduces the need to undertake new long term borrowing and also alleviates the difficulty and risk in finding a safe counterparty to invest with.
- 5.5. This strategy produces savings as borrowing money long term to fund the capital programme would currently be at an interest rate of approximately 4.5% while investments currently only earn approximately 0.5%. By using investments to fund the capital programme in the short term the Council loses 0.5% in investment income but saves 4.5% normally paid on borrowing, thereby, making a net saving of 4.0%.
- 5.6. The downside to this strategy is that investments are not permanent surplus money, but, rather, money set aside for a specific future reason. By using these investments to fund the capital programme there will come a time when the Council may encounter cashflow problems. However, this problem can be rectified by temporarily borrowing money as and when required. Short term temporary borrowing currently costs 0.5%, significantly less than long term borrowing.

5.7. This strategy has been adopted in the short term as a reaction to complex and unique market conditions. The Treasury Management Team will continue to monitor the situation to ensure that, as the economic conditions change, the strategy is adjusted accordingly.

## 6. MONITORING OF THE PRUDENTIAL CODE INDICATORS

6.1 The introduction of the Prudential Code in 2004 gave Local Authorities greater freedom in making capital strategy decisions. The prudential indicators allow the Council to establish prudence and affordability within its capital strategy.

6.2 Below is a selection of prudential indicators which demonstrate that the treasury management decisions are in line with the capital strategy, which is prudent and affordable.

### 6.3. Net External Borrowing and Capital Financing Requirement (CFR) Indicator

6.3.1. The CFR measures the underlying need to borrow money to finance capital expenditure. The Prudential Code stipulates that net external borrowing should not exceed the CFR for the previous year plus the estimated additional CFR requirement for the current and next two financial years. Table 4 below shows the accumulative CFR and net borrowing of the Council.

**Table 4: Net External Borrowing compared with CFR**

	£m
CFR in previous year (2008/09 actual)	320
additional CFR in 2009/10 (estimate)	14
additional CFR in 2010/11 (estimate)	12
additional CFR in 2011/12 (estimate)	8
<b>Accumulative CFR</b>	<b>354</b>
<b>External Borrowing as at 30 Sep 2009</b>	<b>274</b>

6.3.2. Net external borrowing does not exceed the CFR and it is not expected to in the future. This is a key indicator of prudence.

### 6.4. Authorised Borrowing Limit and Operational Boundary Indicators

6.4.1. The Authorised Borrowing Limit is the amount determined as the level of borrowing which, while not desired, could be afforded but may not be sustainable. It is not treated as an upper limit for borrowing for capital purposes alone since it also encompasses temporary borrowing. An unanticipated revision to this limit is considered to be an exceptional event and would require a review of all the other affordability indicators.

6.4.2. The Operational Boundary is the amount determined as the expectation of the maximum external debt according to probable events projected by the estimates and makes no allowance for any headroom. It is designed to alert the Authority to any imminent breach of the Authorised Limit.

**Table 5: Authorised Limit and Operational Boundary Indicator**

	<b>Jul 09 £m</b>	<b>Aug 09 £m</b>	<b>Sep 09 £m</b>
Authorised Limit	475	475	475
Operational Boundary	460	460	460
Total Council Borrowing	274	274	274

6.4.3. The table above shows that neither the Authorised Limit nor the Operational Boundary was breached between July and September 2009. This is a key indicator of affordability.

#### 6.5. Interest Rate Exposures Indicator

6.5.1. The Prudential Code also requires Local Authorities to set limits for the exposure to the effects of interest rate changes. Limits are set for the amount of borrowing/ investments which is subject to variable rates of interest and the amount which is subject to fixed rates of interest. Table 6 shows the interest rate exposure as at 30 September 2009.

**Table 6: Interest Rate Exposure:**

<b>Interest Rate Exposure</b>	<b>Fixed Rate of Interest</b>	<b>Variable Rate of Interest</b>	<b>Total</b>
<b>Borrowings</b>	£274m	£0m	<b>£274m</b>
Proportion of Borrowings	100%	0%	<b>100%</b>
Upper Limit	100%	50%	
<b>Investments</b>	£4m	£100m	<b>£104m</b>
Proportion of Investments	4%	96%	<b>100%</b>
Upper Limit	100%	100%	
<b>Net Borrowing</b>	<b>£270m</b>	<b>£-100m</b>	<b>£170m</b>
Proportion of Total Net Borrowing	159%	-59%	<b>100%</b>

6.5.2. The table above shows that borrowing is mainly at fixed rates of interest and investments are mainly at variable rates of interest. This was considered to be a good position while interest rates were rising as the cost of existing borrowing has remained stable and the investments, at variable rates of interest, have generated increasing levels of income.

6.5.3. As the economic environment has changed to one of falling/low interest rates the Treasury Management Team is working to adjust this position. This work is unfortunately restricted by a number of factors:

- the level of uncertainty in the markets makes investing for long periods at fixed rates of interest more risky and, therefore, the Council continues to only invest short term at variable rates of interest;
- Many of the Council loans have expensive penalties for early repayment or rescheduling which makes changing the debt position difficult.

6.5.4. The Treasury Management Team will continue to work to improve the position within these limiting factors.

## 6.6. Maturity Structure of Borrowing Indicator

6.6.1. The maturity structure of the borrowing has also been set to achieve maximum flexibility with the Authority being able to undertake all borrowing with a short maturity date or a long maturity date. Table 7 shows the current maturity structure of borrowing.

**Table 7: Maturity Structure of Borrowing**

	Borrowings Maturity (years)	30 Sep 09	30 Sep 09
		£m	%
<b>Total Short Term Borrowing</b>	Less than 1 year	<b>4</b>	<b>2</b>
Long Term Borrowing	Over 1 year under 2 years	15	6
	Over 2 years under 5 years	56	20
	Over 5 years under 10 years	34	12
	Over 10 years	165	60
<b>Total Long Term Borrowing</b>		<b>270</b>	<b>98</b>
<b>Total Borrowing</b>		<b>274</b>	<b>100</b>

## 7. REVENUES COLLECTION

7.1. The following statement compares the amount collected for **Council Tax** in the period 1 April 2009 to 30 September 2009 with the amount collected in the same period in 2008/09.

	<b>Actual 2009/10</b>	Actual 2008/09
	£	£
Cash to Collect	<b>122,873,423</b>	119,392,736
Cash Collected	<b>70,208,000</b>	68,139,397
% Collected	<b>57.1%</b>	57.1%

7.2. The following statement compares the amount collected for **National Non-Domestic Rates** in the period 1 April 2009 to 30 September 2009 with the amount collected in the same period in 2008/09.

	<b>Actual 2009/10</b>	Actual 2008/09
	£	£
Total Collectable (including arrears)	<b>72,643,248</b>	64,079,899
Amount Outstanding	<b>34,343,024</b>	29,342,836
% Outstanding	<b>47.28%</b>	45.79%
Amount Collectable 2009/10	<b>65,399,452</b>	63,751,720
Net 2009/10 Cash Collected	<b>37,273,750</b>	35,597,568
% Collected	<b>56.99%</b>	55.84%

7.3. Despite the current economic climate Council Tax payment is currently maintained at 2008-9 levels. Direct Debit is used by 76% of taxpayers, which is one of the highest percentages in the North West and the most economic payment method for both the Council and the Taxpayer. The 100% level for empty Business Rates on properties above a rateable value of £15000, the revised port assessments and the current economic climate continue to have a detrimental effect on Business Rate collection levels. The improved percentage collection for 2009-10 is solely due to an early payment in respect of properties occupied by the Council itself. The underlying collection rate continues to be approximately 1.25% down from last year, which appears to be in line with other similar local authorities.

7.4. The following statement provides information concerning collection of local taxes from 1 April 2009 to 30 September 2009.

	<b>Council Tax</b>	<b>Business Rates</b>
Reminders/Final Notices	40,891	2,206
Summonses	13,266	287
Liability Orders	8,055	256
Recovery action in progress		
Attachment of Earnings	868	
Deduction from Income Support	1,909	-
Accounts to Bailiff	3,951	133
Pre-Committal Warning Letters	1,478	-
Committal Orders Issued	4	0
Debtors Committed	0	0

Current Status of Agent Work in respect of Committals for 1 April 2009 to 30 September 2009.

Warrants of Arrest issued by Court (Bail and No Bail)	54
Warrants of Arrest (Bail) to Warrant officer	82
Warrants of Arrest (No Bail) to Warrant officer	20
Returned successful (Bail)	55
Returned successful (No Bail)	21
Returned other reasons (Bail)	21
Returned other reasons (No Bail)	1

7.5. Insolvency cases to 30 September 2009

The following information concerns Council Tax recovery work which involves cases where Insolvency action or charging orders against properties are used.

Bankruptcy cases	252
Charging orders	78
Winding up orders	2

New cases from 1 April 2009 to 30 September 2009

Bankruptcy	9
Charging orders	9
Winding up orders	<u>2</u>
	<u>352</u>

Status of Insolvency cases at 30 September 2009

Winding-up paid	1
Charging orders granted	39
Winding up Order	1
Supporting other petitions	3
Cases paid	83
Bankruptcy orders	95
Cases closed	96
Ongoing cases	<u>34</u>
	<u>352</u>



## 7.6. Fees and Charges

7.6.1. The following budgets and income received relate to other sources of cash income generated by the Council:

	<b>2008/09 Budget</b>	<b>Income to 30-Sep-08</b>	<b>2009/10 Budget</b>	<b>Income to 30-Sep-09</b>
i. School Meals	£1,578,400	£702,894	£1,607,800	£640,927
ii. Sports Centres	£3,579,300	£1,442,064	£3,867,300	£2,092,967
iii. Golf Courses	£885,600	£525,104	£912,200	£582,600
iv. Burials and Cremations	£2,429,200	£1,040,687	£2,429,200	£983,302
v. Building Control Fees	£796,700	£313,000	£651,900	£325,800
vi. Land Charges	£470,100	£111,500	£358,300	£147,100
vii. Car Park (Pay and Display)	£2,424,200	£1,121,400	£2,496,900	£998,500
viii. Car Park (Penalty Notices)	£1,149,800	£483,200	£1,149,800	£430,400

7.6.2. Further explanation on the above income collection performance is provided below:

- (i) School Meals: It is expected that budgeted income will be achieved.
- (ii) Sports Centres: This is a volatile area and income will be monitored closely throughout the year.
- (iii) Golf Courses: Income can vary significantly according to weather conditions and will be closely monitored.
- (iv) Burials and Cremations: It is expected that the budgeted income will be achieved.
- (v) Building Control Fees: It is anticipated that the income will be achieved.
- (vi) Land Charges: It is anticipated that the income will be closely in line with budget.
- (vii) Car Parks Income (Pay and Display Tickets). It is anticipated that the year end income will be under-achieved by £180,000.
- (viii) Car Park Income (Penalty Notices): It is anticipated that the year end income will be under-achieved by £100,000.

## 7.6.3. Sundry Debtors

	<b>Actual 2009/10</b>	<b>Actual 2008/09</b>
Amount Billed in last 12 months as at 30.09.09	<b>£77,600,018</b>	£79,591,903
Total outstanding as at 30.09.09	<b>£24,693,205</b>	£21,882,837
Arrears at 30.09.09	<b>£12,522,756</b>	£12,948,290
Number of invoices in arrears at 30.09.09	<b>11,285</b>	11,344
Number of reminders 01.04.09 to 30.09.09	<b>13,353</b>	17,032

## 8. HOUSING BENEFITS

- 8.1. The following statement details the number of claimants in respect of benefit and the expenditure for Private Tenants and those in receipt of Council Tax Benefit up to 30 September 2009.

	2009/10	2008/09
Number of <b>Private Tenant</b> recipients	28,088	26,165
Total rent allowance expenditure	£55,487,252	
<b>Number under the Local Housing Allowance scheme (included in the above)</b>	<b>6,772</b>	<b>2,678</b>
	£16,619,921	
Number of <b>Council Tax Benefit</b> recipients	37,178	35,053
Total Council Tax Benefit expenditure	£29,496,143	
Total expenditure on benefit to date	£101,603,316	

- 8.2. The following statement provides information concerning the breakdown according to client type as at 30 September 2009

	Private Tenants	Owner Occupiers
Working age and in receipt of J.S.A.	14,220	1,784
Elderly and in receipt of J.S.A.	7,504	5,622
Working age and not receiving J.S.A.	4,828	1,032
Elderly and not in receipt of J.S.A.	<u>1,936</u>	<u>3,213</u>
<b>Total</b>	<b>28,488</b>	<b>11,651</b>

There are **40,139** benefit recipients in Wirral as at 30 September 2009.

### 8.3. Housing Benefit Fraud and Enquiries

To 30 September 2009

New Cases referred to Fraud team in period	1,174
Cases where fraud found and action taken	66
Cases investigated, no fraud found and recovery of overpayment may be sought	426
Cases under current investigation	203
Surveillance Operations Undertaken	0
Cases where fraud found and action taken:	
Administration penalty	14
Caution issued and accepted	41
Successful prosecution	11
Summons issued for prosecution purposes	2

### 8.4. Discretionary Housing Payments

- 8.4.1 Discretionary Housing Payments (DHP) may be awarded to provide short term financial assistance to Housing and Council Tax Benefit claimants who are experiencing difficulty meeting a shortfall in their rent or Council Tax because maximum benefit is not being paid.

8.4.2 DHP is not a payment of Housing/Council Tax Benefit and is funded separately from the main scheme. The Government contribution for 2009/10 is £310,919 with an overall limit of £777,298 which the Authority must not exceed. To date I have paid £64,326.

## **9. STAFFING IMPLICATIONS**

9.1. There are none arising from this report.

## **10. EQUAL OPPORTUNITIES IMPLICATIONS**

10.1. There are none arising directly from this report.

## **11. HUMAN RIGHTS IMPLICATIONS**

11.1. There are none arising directly from this report.

## **12. LOCAL AGENDA 21 IMPLICATIONS**

12.1. There are none arising directly from this report.

## **13. COMMUNITY SAFETY IMPLICATIONS**

13.1. There are none arising directly from this report.

## **14. PLANNING IMPLICATIONS**

14.1. There are none arising directly from this report.

## **15. LOCAL MEMBER SUPPORT IMPLICATIONS**

15.1. There are none arising directly from this report.

## **16. BACKGROUND PAPERS**

16.1. None were used in the preparation of this report.

## **17. RECOMMENDATION**

17.1. That the report be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE