

WIRRAL COUNCIL

FINANCE AND BEST VALUE OVERVIEW AND SCRUTINY COMMITTEE

22 SEPTEMBER 2008

REPORT OF THE DIRECTOR OF FINANCE

GENERAL FINANCIAL MATTERS

1. EXECUTIVE SUMMARY

- 1.1. This report provides information on the Council 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. FINANCIAL IMPLICATIONS

2.1. Current Economic Environment

- 2.1.1 The recent financial data continues to paint a gloomy picture for the UK economy both now and in the near future. House prices continue to fall along with the number of mortgage approvals and economic growth is slowing.
- 2.1.2 Inflation figures released in July 2008 show the Consumer Price Index (CPI) increasing to 4.2%, its highest level since the Bank of England (BoE) independence in 1997. The Retail Price Index (RPI) also rose, to 4.9%.
- 2.1.3 The rise in inflation rates has increased the pressure on the Bank of England to increase interest rates. Currently the base rate stands at 5%. The BoE has the dilemma that an increase in rates may help reduce inflation back to the 2% (CPI) target but it would also harm the, already slowing, growth in the economy. Maintaining economic growth is important in ensuring that the UK does not fall into a recession.
- 2.1.4 The credit crunch continues to affect the banking system with interbank lending rates remaining significantly higher than the BoE base rate. This means that Council investments are able to earn significantly higher returns than was initially expected as the banks are keen to borrow money from secure and credit worthy Local Authorities. Throughout July 2008 banks have paid up to 5.9% for 3 month money and up to 6.4% for 1 year money although towards the end of the month rates did begin to fall off slightly.
- 2.1.5 The downside to the credit crunch is that the rates at which the Council can borrow money have also increased. Borrowing from the PWLB is more expensive in the first quarter of this financial year compared with the last quarter of 2007-08.

2.2. Investments

2.2.1 The Treasury Management Team invests surplus 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. This surplus money occurs for a number of reasons including;

- General Fund Balances – money available to fund future expenditure
- Provisions and Reserves – earmarked money for future spending plans
- Grants received in advance of expenditure
- Money borrowed in advance of capital expenditure

2.2.2 As at the 31 July 2008 the Council held investments of £90.5m. The table below details these investments;

Table 1: Investments as at 31 July 2008

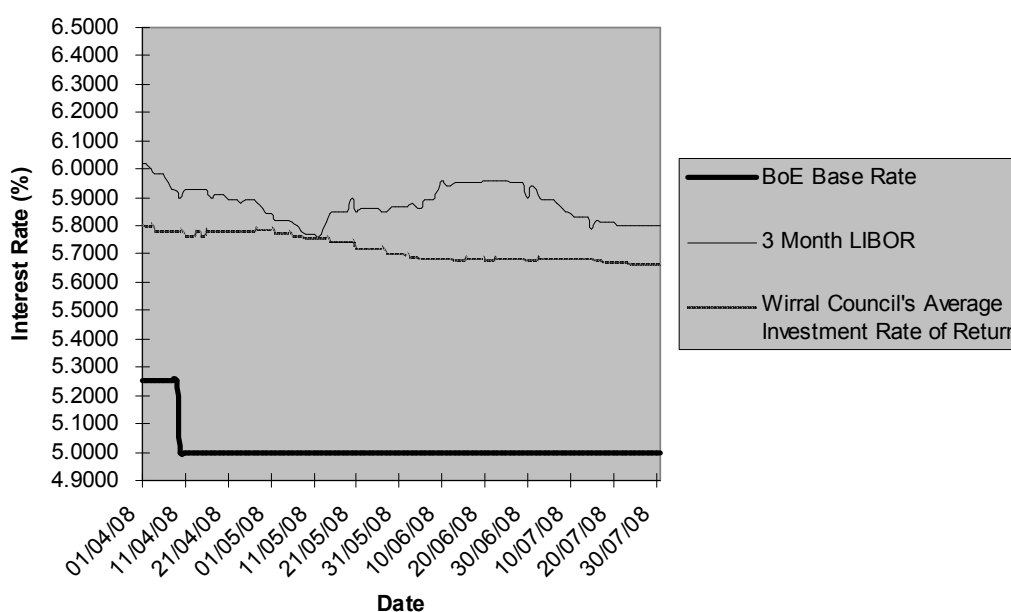
Investments with:	£m
Banks	30.8
Building Societies	44.2
Money Market Funds	14.7
Other Unit Trusts	0.1
Gilts	0.7
TOTAL	90.5

* all of the above figures are measured at nominal values.

2.2.3 Of the above investments £14.7m is invested in instant access funds, £63.5m is invested for up to 1 year, £7.8m is invested for up to 2 years and £4.5m is invested for up to 5 years.

2.2.4 The average rate of return on investments as at 31 July 2008 was 5.72%. The graph below shows the rate of return against the Bank of England base rate and the 3 month LIBOR (the inter bank lending rate);

Chart 1: Rate of Return in 2008/09



- 2.2.5 The 3 month LIBOR rate is a guide to the interest rates the banks are paying for money invested for 3 months. The Council invests money for varying periods and places more emphasis on the security of investments than the returns which can be earned. For these reasons it would be unlikely that the Council will earn an investment rate of return above 3 month LIBOR, it is merely to be used as an indication of market conditions.
- 2.2.6 The 2008/09 budget for investment income is £2.7m. Investment Income is currently forecast to produce a surplus of £1m in 2008/09. This is due to a number of factors:
- The prevailing money market rates of interest have been higher than expected primarily due to the credit crunch which has benefited new deposits made during the year.
 - Following the Treasury Management restructure in 2007/08 the Council has become more proactive in finding the best investment opportunities and thereby earn better returns.
- 2.2.7 Against the backdrop of these increased returns I have been working with the Treasury Management consultants to ensure that the investments are only made with credit worthy financial institutions. The security of the Council investments always takes priority over the returns.

2.3 Borrowing

- 2.3.1 The Council undertakes borrowing to help fund capital expenditure. To date no additional borrowing has been undertaken in 2008-09. The table below shows the total borrowing of the Council as at 31 July 2008.

Table 2: Borrowing as at 31 July 2008

Borrowing	£m
PWLB	113.8
Market Loans	173.6
TOTAL	287.4

- 2.3.2 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.
- 2.3.3 The Council currently has no temporary borrowing. Temporary borrowing is used to finance unexpected short term cashflow deficits. The Treasury Management Team maintains an accurate cash flow forecast to minimise the risk of unexpected cashflow deficits. This work generated savings in 2007-08 of £350,000 and it is hoped that it will generate further savings in 2008-09.

2.4 Monitoring of the Prudential Code Indicators

- 2.4.1 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 demonstrate that it is complying with the statutory requirement of establishing prudence and affordability within its capital strategy.

2.4.2 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.

Net External Borrowing and Capital Financing Requirement (CFR) Indicator

2.4.3 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 3 below shows the cumulative CFR and net borrowing of the Council.

Table 3: Net External Borrowing compared with CFR

	£m
CFR in previous year (2007-08)	312.3
additional CFR in current year (2008-09)	23.6
additional CFR in 2009-10	9.4
additional CFR in 2010-11	10.7
Accumulative CFR	356.0
External Borrowing as at 31 July 2008	287.4

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

Authorised Limit and Operational Boundary Indicators

2.4.5 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.

2.4.6 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 4: Authorised Limit and Operational Boundary Indicator

	May 08 £m	June 08 £m	July 08 £m
Authorised limit	445	445	445
Operational Boundary	435	435	435
Total Council Borrowing	287	287	287

2.4.7 The table above shows that neither the authorised limit nor the operational boundary was breached between May and July 2008. This is a key indicator of affordability.

Interest Rate Exposures Indicator

- 2.4.8 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 are subject to variable rates of interest and the amount which is subject to fixed rates of interest.
- 2.4.9 To give the Authority flexibility during the current unsettled market conditions the upper exposure limits have been set at 100% for both fixed and variable. Table 5 shows the interest rate exposure as at 31 July 2008.

Table 5: Interest Rate Exposure:

Interest Rate Exposure	Fixed Rate of Interest £m	Variable Rate of Interest £m	Total £m
Borrowing	277	10	287
Investments	11	79	90
Net Borrowing	266	-69	197
Proportion of Total Net Borrowing	135%	-35%	100%
Upper Limit	100%	100%	

- 2.4.10 The 135% exposure to fixed rates breaches the indicator limits for the year. The figure demonstrates that the Council's net borrowings are largely at fixed interest rates. This is considered to be a good position currently, as while interest rates have been rising, due to the credit crunch, the cost of existing borrowing has remained stable. Conversely, the investments, at variable rates of interest, have generated increasing levels of income.
- 2.4.11 The risk is that a future fall in interest rates might make the current borrowing seem relatively expensive and investment returns would decrease as interest rates fall. The Treasury Management Team has begun work to reduce this risk as the market expectations of an interest rate fall increase. This can be done by investing in more long term fixed rate deals, to maintain investment returns into the future, and by looking to restructuring debt to benefit from cheap interest rate payments.

Maturity Structure of Borrowing Indicator

- 2.4.12 The maturity structure of the borrowing has also been set to achieve maximum flexibility with the Authority able to undertake all of its borrowing with a short maturity date or a long maturity date. Table 6 shows the current maturity structure of all of the borrowing.

Table 6: Maturity Structure of Borrowing

Maturity Structure of Borrowing	£m
Under 12 months	3
12 months and within 24 months	14
up to 5 years	43
5 years and within 10 years	57
10 years plus	170
Total	287

3. REVENUES COLLECTION

- 3.1. The following statement compares the amount collected for **Council Tax** in the period 1 April 2008 to 31 July 2008 with the amount collected in the same period in 2007/08.

	Actual 2008/09 £	Actual 2007/08 £
Cash to Collect	119,421,040	114,914,771
Cash Collected	45,828,791	43,460,297
% Collected	38.4%	37.8%

- 3.2. The following statement compares the amount collected for **National Non-Domestic Rates** in the period 1 April 2008 to 31 July 2008 with the amount collected in the same period in 2007/08.

	Actual 2008/09 £	Actual 2007/08 £
Total Collectable (including arrears)	68,492,222	61,223,781
Amount Outstanding	43,202,502	36,131,751
% Outstanding	63.08%	59.02%
Amount Collectable 2007-08	64,485,403	57,907,305
Net 2007-08 Cash Collected	22,277,412	23,334,198
% Collected	35.82%	40.30%

- 3.3. The improved situation in Council Tax collection is due to the increased take up and prompt administration of Direct Debit and ongoing prompt recovery. The year on year disparity in National Non-Domestic Rates is due in part to the delayed internal transfer of Committee payments, which will now be made in August. However the major reason is as predicted the much higher level of delayed and non-payment of Empty Rates which was introduced on 1 April 2008. Given this is only the first four months of the year I am at the initial stage of recovery work in this area. I will give a more detailed picture on collection of Empty Rates in the next report.

- 3.4. The following statement provides information concerning collection of local taxes from 1 April 2008 to 31 July 2008.

	Council Tax	Business Rates
Reminders/Final Notices	28,574,	2,234
Summonses	9,090	852
Liability Orders	7,591	489
Recovery action in progress		
Attachment of Earnings	501	-
Deduction from Income Support	3,400	-
Accounts to Bailiff	2,374	163
Pre-Committal Warning Letters	1,207	-
Committal Orders Issued	4	0
Debtors Committed	0	0

Current Status of Agent Work in respect of Committals for 1 April 2008 to 31 July 2008.

Warrants of Arrest issued by Court (Bail and No Bail)	59
Warrants of Arrest (Bail) to Warrant officer	55
Warrants of Arrest (No Bail) to Warrant officer	22
Returned successful (Bail)	33
Returned successful (No Bail)	36
Returned other reasons (Bail)	0
Returned other reasons (No Bail)	0

3.5. Insolvency cases to 31 July 2008

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

Bankruptcy cases	239
Charging orders	61
Winding up orders	2

New cases from 1 April 2008 to 31 July 2008

Bankruptcy	3
Charging orders	9
Winding up orders	0
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Status of Insolvency cases at 31 July 2008

Winding up	1
Winding-up paid	1
Charging orders granted	30
Winding up Order	1
Supporting other petitions	5
Cases paid	78
Bankruptcy orders	84
Cases closed	73
Ongoing cases	41
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3.6. Fees and Charges

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

	2007/08 Budget	Income to 31-Jul-07	2008/09 Budget	Income to 31-Jul-08
i. School Meals	£1,404,000	£374,594	£1,578,400	£508,675
ii. Sports Centres	£3,457,100	£887,848	£3,579,300	£888,791
iii. Golf Courses	£859,800	£383,565	£885,600	£396,372
iv. Burials and Cremations	£2,344,600	£595,478	£2,429,200	£791,601
v. Building Control Fees	£876,700	£218,497	£796,700	£238,075
vi. Land Charges	£464,600	£115,790	£470,100	£39,183
vii. Car Park (Pay and Display)	£2,591,500	£577,791	£2,424,200	£756,735
viii. Car Park (Penalty Notices)	£1,116,300	£352,680	£1,149,800	£326,905

3.6.2. Further explanation on the above budgets and income collection performance is provided below:

- (i) Schools Meals: Currently it is expected that the budgeted income will be achieved.
- (ii) Sports Centres: Currently it is expected that the budgeted income will be achieved.
- (iii) Golf Courses: Currently it is expected that the budgeted income will be achieved
- (iv) Burials and Cremations: Currently it is expected that the budgeted income will be achieved.
- (v) Building Control Fees: The 2008-09 Building Control Fees budget has been adjusted to reflect the 2007-08 shortfall and currently it is expected that the budgeted income will be achieved.
- (vi) Land Charges: Land Charges income is declining and there is likely to be a deficit in 2008-2009 in the region of £200,000. A Cabinet Report is currently being prepared by the Director of Technical Services to consider the budget implications arising from this. The housing market is continuing its downturn and new buyer enquiries have slipped as buyers are now biding their time. A decline in the local housing market is a principal factor in the reduction in the number of Land Charge searches being received.
- (vii) Car Parks Income (Pay and Display Tickets): Currently it is expected that the budgeted income will be achieved
- (viii) Car Parks Income (Penalty Notices): Currently it is expected that the budgeted income will be achieved.

3.7. Sundry Debtors

3.7.1.	Actual 2008/09	Actual 2007/08
Amount Billed in last 12 months as at 31.07.08	£86,475,288	£57,812,834
Total outstanding as at 31.07.08	£37,350,944	£18,611,235
Arrears at 31.07.08	£12,144,999	£12,188,301
Number of invoices in arrears at 31.07.08	11,940	9,708
Number of reminders 01.04.08 to 31.07.08	12,026	14,666

3.7.2. The increase in sums billed reflects the increase in Adult Social Services accounts now being issued. However it is important to note that the total outstanding includes the sum still within the normal settlement period. The arrears sum reflects debts over one month old and this has remained constant despite the overall increase in accounts.

4. HOUSING BENEFITS

- 4.1. 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 31 July 2008. The Council Tax expenditure includes postings at the start of the year for main billing.

	2008/09	2007/08
Number of Private Tenant recipients	26,161	25,780
Total rent allowance expenditure	£32,674,121	
Number under the Local Housing Allowance scheme (included in the above)	1,037 £ 1,223,191	-
Number of Council Tax Benefit recipients	35,033	34,816
Total Council Tax Benefit expenditure	£26,152,796	
Total expenditure on benefit to date	£58,826,917	

- 4.2. The following statement provides information concerning the breakdown according to client type as at 31 July 2008.

	Private Tenants	Owner Occupiers
Working age and in receipt of J.S.A.	13,290	1,741
Elderly and in receipt of J.S.A.	6,974	5,550
Working age and not receiving J.S.A.	3,980	820
Elderly and not in receipt of J.S.A.	1,917	3,004
Total	26,161	11,115

There are **37,276** Benefit Recipients in Wirral as at 31 July 2008.

4.3. Housing Benefit Fraud and Enquiries

	01.04.08-31.07.2008
New Cases referred to Fraud team in period	792
Cases where fraud found and action taken	45
Cases investigated, no fraud found and recovery of overpayment may be sought	134
Cases under current investigation	116
Surveillance Operations Undertaken	0
Cases where fraud found and action taken;	
Administration penalty	12
Caution issued and accepted	24
Successful prosecution	9
Summons issued for prosecution purposes	6

4.4. Discretionary Housing Payments

- 4.4.1 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.

4.4.2 DHP is not a payment of Housing/Council Tax Benefit and is funded separately from the main scheme. The Government contribution for 2008/09 is £266,185 with an overall limit of £665,462 which the Authority must not exceed. To date I have paid £111,872.

5. STAFFING IMPLICATIONS

5.1. There are none arising from this report.

6. EQUAL OPPORTUNITIES IMPLICATIONS

6.1. There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1. There are none arising directly from this report.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising directly from this report.

9. COMMUNITY SAFETY IMPLICATIONS

9.1. There are none arising directly from this report.

10. PLANNING IMPLICATIONS

10.1. There are none arising directly from this report.

11. LOCAL MEMBER SUPPORT IMPLICATIONS

11.1. There are none arising directly from this report.

12. BACKGROUND PAPERS

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

13. RECOMMENDATION

13.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE