

WIRRAL COUNCIL

FINANCE AND BEST VALUE OVERVIEW AND SCRUTINY COMMITTEE

26 NOVEMBER 2008

REPORT OF THE DIRECTOR OF FINANCE

GENERAL FINANCIAL MATTERS

1. EXECUTIVE SUMMARY

- 1.1. This report provides information on treasury management, 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. The pace of change in the financial markets is so rapid and unpredictable that by the time this report is read events may well have changed significantly. One thing that is almost guaranteed is that the UK economy is heading for a recession.
- 2.2. Inflation figures continue to remain high with CPI at 5.2% and RPI at 5% for September 2008. The consensus is that these figures will fall rapidly as the recession takes hold of the economy. The already falling oil price is testimony to this.
- 2.3. The Bank of England (BoE) made a surprise and coordinated half a percentage rate cut in early October 2008 to try and stimulate the markets, along with other leading countries. The scale and depth of the pending recession will determine how much further the base rate will need to fall before things start to improve. Current forecasts are predicting rates to fall to between 3.5% and 2.5%. It is almost certain that there will be more cuts before this financial year is over.
- 2.4. The collapse of the Icelandic Banks is another reminder of the 'credit crunch'. At the last count 116 Local Authorities had money in Icelandic Banks as well as many charities and other organisations. The complex role of unpicking the finances of these banks has now begun and it will be sometime before investors receive their money back.
- 2.5. The recent Government intervention in the UK banking system should prevent a similar collapse in the UK but it will take time before many banks fully recover. Currently the interbank lending rates remain significantly higher than the BoE base rate as a level of distrust and suspicion remains between banks and other financial institutions.

3. INVESTMENTS

3.1. 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 money derives from a number of sources including:

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

3.2. As at 30 September 2008 the Council held investments totalling £96.8m. The table below details these investments;

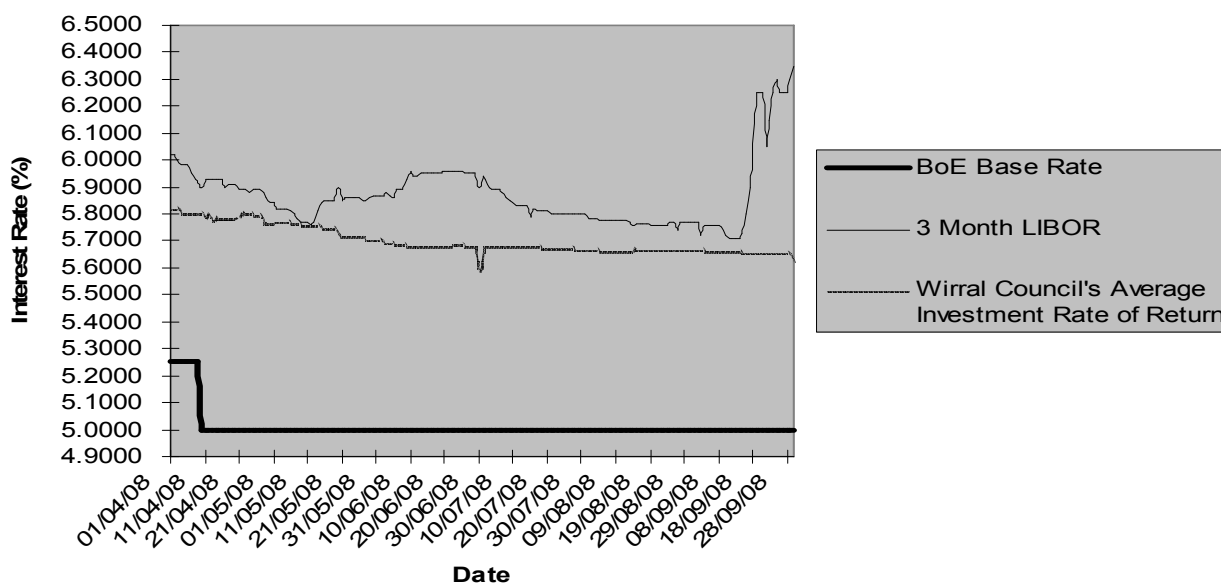
Table 1: Investments as at 30 September 2008

Investments with:	£m
Banks	38.7
Building Societies	30.4
Debt Management Office	11.2
Money Market Funds	15.7
Other Unit Trusts	0.1
Gilts	0.7
TOTAL	96.8

3.3 Of the above investments £16.5m is invested in instant access funds, £66.5m is invested for up to 1 year, £8.8m is invested for up to 2 years and £5m is invested for up to 5 years.

3.4 The average rate of return on investments as at 30 September 2008 was 5.70%. 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: Council Investment Rate of Return in 2008/09



- 3.5 In late September the interbank lending rate (LIBOR) spiked again as banks, struggling for money, were increasingly willing to pay high rates to obtain it. Globally, many banks were nationalised to prevent them going under, including, in the UK, Bradford and Bingley.
- 3.6 As mentioned in paragraph 2.4. Icelandic Banks recently ran into financial difficulties and three have been placed into administration. Wirral Council has a £2 million fixed term deposit with Heritable Bank, part of the Landsbanki group, one of the banks affected. Heritable Bank is in administration in the UK.
- 3.7 The Council has not placed any investments with Icelandic Banks since December 2007 because they were considered to be a high risk. The £2million which is with Heritable Bank was a one year fixed term investment made in November 2007.
- 3.8 During this period of uncertainty I have temporarily suspended investments with Banks and Building Societies. All new investments have been made with either AAA rated money market funds or with the Debt Management Office (DMO), an Executive Agency of HM Treasury.
- 3.9 I approved an increased lending limit of £90m with the DMO to ensure that the Council had enough scope to invest money safely whilst the temporary suspension on other forms of investment existed.
- 3.10 The downside to investing with the DMO is that the rate of return is substantially reduced in return for increased safety. The 2008/09 budget for investment income is £2.7m; and as at 30 September 2008 income of £3.4m had been secured. Investment Income is currently forecast to produce a surplus of £700k in 2008/09. This is due to:
- The prevailing money market rates of interest have been higher than expected primarily due to the credit crunch which has benefited deposits made during the early part of the year.
 - Following the Treasury Management Team restructure in 2007/08 the Council has become more proactive in finding the best investment opportunities and thereby earning better returns.
- 3.11 The security of the investments always takes priority over the returns.

4. **BORROWING**

- 4.1 The Council undertakes borrowing to 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 30 September 2008.

Table 2: Borrowing as at 30 September 2008

Borrowing	£m
PWLB	113.7
Market Loans	173.6
TOTAL	287.3

- 4.2 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.

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

5. MONITORING OF THE PRUDENTIAL CODE INDICATORS

5.1 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 end of establishing prudence and affordability within its capital strategy.

5.2 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

5.3 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
Cumulative CFR	356.0
External Borrowing as at 30 Sept 2008	287.3

5.4 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

5.5 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.

- 5.6 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

	Jul 08 £m	Aug 08 £m	Sep 08 £m
Authorised limit	445	445	445
Operational Boundary	435	435	435
Total Council Borrowing	287	287	287

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

Interest Rate Exposures Indicator

- 5.8 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 borrowings/ investments which are subject to variable rates of interest and the amount which is subject to fixed rates of interest.
- 5.9 To give the Authority flexibility during the unsettled market conditions the upper exposure limits have been set at 100% for both fixed and variable. Table 5 show the interest rate exposure as at 30 September 2008.

Table 5: Interest Rate Exposure:

Interest Rate Exposure	Fixed Rate of Interest £m	Variable Rate of Interest £m	Total £m
Borrowings	277	10	287
Investments	11	86	97
Net Borrowing	266	-76	190
Proportion of Total Net Borrowing	140%	-40%	100%
Upper Limit	100%	100%	

- 5.10 The 140% exposure to fixed rates breaches the indicator limits for the year. The figure demonstrates that the 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.

- 5.11 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

- 5.12 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 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

6. REVENUES COLLECTION

- 6.1. The following statement compares the amount collected for **Council Tax** in the period 1 April 2008 to 30 September 2008 with the amount collected in the same period in 2007/08.

	Actual 2008/09	Actual 2007/08
	£	£
Cash to Collect	119,392,736	114,872,628
Cash Collected	68,139,398	64,806,530
% Collected	57.1%	56.4%

- 6.2. The following statement compares the amount collected for **National Non-Domestic Rates** in the period 1 April 2008 to 30 September 2008 with the amount collected in the same period in 2007/08.

	Actual 2008/09	Actual 2007/08
	£	£
Total Collectable (including arrears)	67,227,904	61,144,613
Amount Outstanding	29,342,836	26,190,609
% Outstanding	43.65%	42.83%
Amount Collectable 2008/09	63,751,720	57,973,840
Net 2008/09 Cash Collected	35,597,568	33,273,191
% Collected	55.84%	57.39%

- 6.3. 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 reduction in collection rate in **Business Rates** from 2007/08 levels is mainly as a result of the new 100% level for empty property rate which accounts for approximately £5m of the increase in the amount collectable for 2008/09. In addition the current economic climate is also having an effect on collection. Comparison with other similar rating authorities shows a similar drop in collection, typically down 1.25% to 1.50% in comparison to last year.
- 6.4. The following statement provides information concerning collection of local taxes from 1 April 2008 to 30 September 2008.

	Council Tax	Business Rates
Reminders/Final Notices	39,081	2,544
Summonses	12,725	932
Liability Orders	9,603	552
Recovery action in progress		
Attachment of Earnings	853	-
Deduction from Income Support	4,229	-
Accounts to Bailiff	4,996	194
Pre-Committal Warning Letters	1,892	-
Committal Orders Issued	4	0
Debtors Committed	0	0

Current Status of Agent Work in respect of Committals for 1 April 2008 to 30 September 2008.

Warrants of Arrest issued by Court (Bail and No Bail)	82
Warrants of Arrest (Bail) to Warrant officer	72
Warrants of Arrest (No Bail) to Warrant officer	30
Returned successful (Bail)	50
Returned successful (No Bail)	45
Returned other reasons (Bail)	5
Returned other reasons (No Bail)	0

6.5. Insolvency cases to 30 September 2008

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

Bankruptcy cases	240
Charging orders	60
Winding up orders	2

New cases from 1 April 2008 to 30 September 2008

Bankruptcy	6
Charging orders	10
Winding up orders	0
	<u>318</u>

Status of Insolvency cases at 30 September 2008

Winding-up paid	1
Charging orders granted	27
Winding up Order	1
Supporting other petitions	3
Cases paid	78
Bankruptcy orders	94
Cases closed	83
Ongoing cases	<u>31</u>
	<u>318</u>

6.6. Fees and Charges

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

	2007/08 Budget	Income to 30-Sep-07	2008/09 Budget	Income to 30-Sep-08
i. School Meals	£1,404,000	£517,936	£1,578,400	£702,894
ii. Sports Centres	£3,457,100	£1,544,344	£3,579,300	£1,442,064
iii. Golf Courses	£859,800	£499,880	£885,600	£525,104
iv. Burials and Cremations	£2,344,600	£973,928	£2,429,200	£1,040,687
v. Building Control Fees	£876,700	£334,700	£796,700	£313,000
vi. Land Charges	£464,600	£186,200	£470,100	£111,500
vii. Car Park (Pay and Display)	£2,591,500	£943,500	£2,424,200	£1,121,400
viii. Car Park (Penalty Notices)	£1,116,300	£518,800	£1,149,800	£483,200

6.6.2. 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: Due to the adverse weather conditions over the summer it is predicted that there will be an adverse variance in the year.
- (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. However, Income continues to decline and it is likely that there will be a significant deficit by the year end, possibly in the region of £200,000. A report will be submitted to Cabinet by the Department of Technical Services when the likely deficit may be predicted with some certainty, together with proposals for rationalising the situation.

- (vi) Land Charges: Land Charges income is declining and there is likely to be a deficit during 2008-2009. Current predictions are in the region of £200,000. A Cabinet Report is currently being prepared by the Department of Technical Services to consider the budgetary implications arising from this. The housing market is continuing its downturn and new buyer enquiries have reduced. A decline in the local housing market is a principal factor in the reduction in the number of local 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 Park Income (Penalty Notices): Currently it is expected that the budgeted income will be achieved.

6.7 Sundry Debtors

6.7.1	Actual 2008/09	Actual 2007/08
Amount Billed in last 12 months as at 30.09.08	£79,591,903	£59,869,868
Total outstanding as at 30.09.08	£21,882,837	£19,973,235
Arrears at 30.09.08	£12,948,290	£12,809,643
Number of invoices in arrears at 30.09.08	11,344	9,073
Number of reminders 01.04.08 to 30.09.08	17,032	19,162

6.7.2 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.

7. HOUSING BENEFITS

7.1. 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 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	26,165	25,740
Total rent allowance expenditure	£48,841,854	
Number under the Local Housing Allowance scheme (included in the above)	2,678 £2,932,407	-
Number of Council Tax Benefit recipients	35,053	34,860
Total Council Tax Benefit expenditure	£26,265,714	
Total expenditure on benefit to date	£78,039,975	

- 7.2. The following statement provides information concerning the breakdown according to client type as at 30 September 2008.

	Private Tenants	Owner Occupiers
Working age and in receipt of J.S.A.	13,259	1,717
Elderly and in receipt of J.S.A.	7,000	5,533
Working age and not receiving J.S.A.	3,966	822
Elderly and not in receipt of J.S.A.	<u>1,940</u>	<u>3,029</u>
Total	26,165	11,101

There are **37,266** Benefit Recipients in Wirral as at 30 September 2008.

7.3. **Housing Benefit Fraud and Enquiries**

01.04.08- 30.09.08

New Cases referred to Fraud team in period	1,058
Cases where fraud found and action taken	72
Cases investigated, no fraud found and recovery of overpayment may be sought	286
Cases under current investigation	181
Surveillance Operations Undertaken	0
Cases where fraud found and action taken; Administration penalty	17
Caution issued and accepted	42
Successful prosecution	13
Summons issued for prosecution purposes	10

7.4. **Discretionary Housing Payments**

- 7.4.1 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.

- 7.4.2 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 £146,469.

8. **STAFFING IMPLICATIONS**

- 8.1. There are none arising from this report.

9. **EQUAL OPPORTUNITIES IMPLICATIONS**

- 9.1. There are none arising directly from this report.

10 **HUMAN RIGHTS IMPLICATIONS**

- 10.1. There are none arising directly from this report.

11. LOCAL AGENDA 21 IMPLICATIONS

11.1. There are none arising directly from this report.

12. COMMUNITY SAFETY IMPLICATIONS

12.1. There are none arising directly from this report.

13. PLANNING IMPLICATIONS

13.1. There are none arising directly from this report.

14. LOCAL MEMBER SUPPORT IMPLICATIONS

14.1. There are none arising directly from this report.

15. BACKGROUND PAPERS

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

16. RECOMMENDATION

16.1. That the report be noted.

IAN COLEMAN
DIRECTOR OF FINANCE