

# **WIRRAL COUNCIL**

## **FINANCE AND BEST VALUE OVERVIEW AND SCRUTINY COMMITTEE**

**21 JANUARY 2009**

### **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. FINANCIAL IMPLICATIONS**

###### **2.1. Current Economic Environment**

- 2.1.1 The UK economy is officially in recession and the immediate future looks very gloomy. Unemployment figures are continuing to rise and with the demise of high street names such as Woolworths these figures are expected to deteriorate.
- 2.1.2 The predicted fall in inflation rates has begun with the official measure of inflation, CPI, falling to 4.1% and the RPI down to 3% for November 2008. These figures are expected to continue to drop rapidly; however, there is still uncertainty as to how low inflation will fall, with deflation still a possibility next year.
- 2.1.3 The Bank of England (BoE) base rate was reduced to 2% in December 2008 and according to the minutes of the last meeting a bigger cut was only resisted because of the effect it may have on the currency. This news makes further cuts over the next few months inevitable and interest rate forecasts have again been revised. I am now assuming that rates will fall to 1% early in 2009.

###### **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
  - 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 30 November 2008 the Council held investments of £84.3m. The table below details these investments;

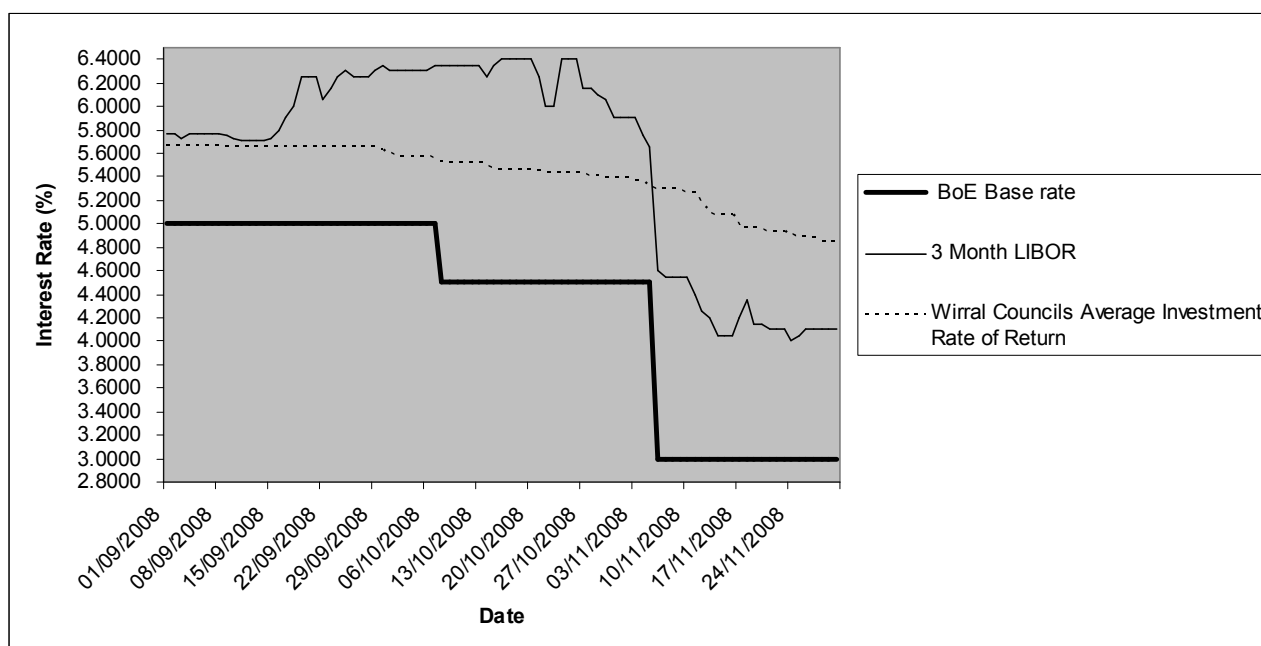
**Table 1: Investments as at 30 November 2008**

Investments with:	£m
Banks	23.9
Building Societies	24.3
Debt Management Office	7.9
Other Local Authorities	22.5
Money Market Funds	4.9
Other Unit Trusts	0.1
Gilts	0.7
<b>TOTAL</b>	<b>84.3</b>

2.2.3 Of the above investments £5.7m is invested in instant access funds, £68.6m is invested for up to 1 year, £6m is invested for up to 2 years and £4m is invested for up to 5 years.

2.2.4 The average rate of return on investments as at 30 November 2008 was 5.60%. The graph below shows the rate of return achieved against the Bank of England base rate and the 3 month LIBOR (the inter bank lending rate);

**Chart 1: Council's Investment Rate of Return in 2008/09**



2.2.5 The rate at which the Council can invest money has fallen considerably over the year, in line with the falling BoE base rate.

2.2.6 During November 2008 I reinstated some banks and building societies onto the Approved Counterparty List. The institutions reinstated are all UK based, AA rated and have received Government guarantees of support, if required in the future. The Council also continues to invest in AAA rated money market funds and the Debt Management Office (DMO).

2.2.7 The 2008/09 budget for investment income is £2.7m; as at 30 November 2008 income of £3.7m had already been secured. Investment Income is currently forecast to produce a surplus of £1.2m 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 the new 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 earned better returns.

2.2.8 The security of the 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 30 November 2008.

**Table 2: Borrowing as at 30 November 2008.**

<b>Borrowings</b>	<b>£m</b>
PWLB	113.7
Market Loans	173.6
<b>TOTAL</b>	<b>287.3</b>

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 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.

### 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 responsibility 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
<b>Cumulative CFR</b>	<b>356.0</b>
<b>External Borrowing as at 30 Nov 2008</b>	<b>287.3</b>

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**

	Sep 08 £m	Oct 08 £m	Nov 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 September and November 2008. This is a key indicator of affordability.

Interest Rate Exposures Indicator

2.4.8 The Prudential Code 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.

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 show the interest rate exposure as at 30 November 2008.

**Table 5: Interest Rate Exposure:**

<b>Interest Rate Exposure</b>	<b>Fixed Rate of Interest</b>	<b>Variable Rate of Interest</b>	<b>Total</b>
<b>Borrowing</b>	£277m	£10m	<b>£287m</b>
Proportion of Borrowing	97%	3%	<b>100%</b>
Upper Limit	100%	100%	
<b>Investments</b>	£10m	£74m	<b>£84m</b>
Proportion of Investments	12%	88%	<b>100%</b>
Upper Limit	100%	100%	
<b>Net Borrowing</b>	<b>£267m</b>	<b>£-64m</b>	<b>£203m</b>
Proportion of Total Net Borrowing	132%	-32%	<b>100%</b>

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

2.4.11 However as the environment changes to one of falling interest rates the Treasury Management Team has begun to adjust the position. 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 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**

<b>Maturity Structure of Borrowing</b>	<b>£m</b>
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
<b>Total</b>	<b>287</b>

### 3. REVENUES COLLECTION

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

	<b>Actual 2008/09</b>	Actual 2007/08
	£	£
Cash to Collect	<b>119,235,255</b>	114,684,077
Cash Collected	<b>90,291,615</b>	86,192,387
% Collected	<b>75.7%</b>	75.2%

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

	<b>Actual 2008/09</b>	Actual 2007/08
	£	£
Total Collectable (including arrears)	<b>67,074,730</b>	60,690,845
Amount Outstanding	<b>16,893,910</b>	13,131,090
% Outstanding	<b>25.19%</b>	21.64%
Amount Collectable 2008/09	<b>64,282,667</b>	57,745,975
Net 2008/09 Cash Collected	<b>48,846,201</b>	45,974,106
% Collected	<b>75.99%</b>	79.61%

- 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 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 and the recent creation of rates in respect of port occupations amounting to over £1m in respect of 2008/09 are also having an effect on collection. Comparison with similar local authorities shows a similar drop in collection.

- 3.4. The following statement provides information concerning collection of local taxes from 1 April 2008 to 30 November 2008.

	<b>Council Tax</b>	<b>Business Rates</b>
Reminders/Final Notices	47,465	2,862
Summonses	15,149	1,081
Liability Orders	12,096	667
Recovery action in progress		
Attachment of Earnings	1,184	-
Deduction from Income Support	4,229	-
Accounts to Bailiff	6,647	379
Pre-Committal Warning Letters	2,549	-
Committal Orders Issued	4	0
Debtors Committed	0	0

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

Warrants of Arrest issued by Court (Bail and No Bail)	95
Warrants of Arrest (Bail) to Warrant officer	90
Warrants of Arrest (No Bail) to Warrant officer	39
Returned successful (Bail)	72
Returned successful (No Bail)	47
Returned other reasons (Bail)	5
Returned other reasons (No Bail)	0

### 3.5. Insolvency cases to 30 November 2008

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

#### New cases from 1 April 2008 to 30 November 2008

Bankruptcy	10
Charging orders	12
Winding up orders	<u>0</u>
	<u>324</u>

#### Status of Insolvency cases at 30 November 2008

Winding-up paid	3
Charging orders granted	30
Winding up Order	1
Supporting other petitions	3
Cases paid	78
Bankruptcy orders	94
Cases closed	84
Ongoing cases	<u>31</u>
	<u>324</u>

### 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:-

	<b>2007/08 Budget</b>	<b>Income to 30-Nov-07</b>	<b>2008/09 Budget</b>	<b>Income to 30-Nov-08</b>
i. School Meals	£1,404,000	£744,113	£1,578,400	£992,655
ii. Sports Centres	£3,457,100	£2,100,952	£3,579,300	£2,007,643
iii. Golf Courses	£859,800	£641,545	£885,600	£598,377
iv. Burials and Cremations	£2,344,600	£1,263,922	£2,429,200	£1,397,029
v. Building Control Fees	£876,700	£497,100	£796,700	£417,400
vi. Land Charges	£464,600	£247,500	£470,100	£140,300
vii. Car Park (Pay and Display)	£2,591,500	£1,416,400	£2,424,200	£1,532,000
viii. Car Park (Penalty Notices)	£1,116,300	£690,000	£1,149,800	£636,800

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: Due to the adverse weather conditions over the summer it is predicted that there will be an adverse variance of £150,000 at the year end.
- (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.
- (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. The housing market is continuing its downturn and new buyer enquiries have slipped. 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.

### 3.6.3. Sundry Debtors

	<b>Actual 2008/09</b>	Actual 2007/08
Amount Billed in last 12 months as at 30.11.08	<b>£78,951,400</b>	£58,508,101
Total outstanding as at 30.11.08	<b>£20,785,473</b>	£21,189,137
Arrears at 30.11.08	<b>£12,927,088</b>	£13,323,013
Number of invoices in arrears at 30.11.08	<b>12,376</b>	11,291
Number of reminders 01.04.08 to 30.11.08	<b>21,999</b>	26,111

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 30 November 2008.

	2008/09	2007/08
Number of <b>Private Tenant</b> recipients	<b>26,638</b>	25,760
Total rent allowance expenditure	<b>£69,227,673</b>	
<b>Number under the Local Housing Allowance scheme (included in the above)</b>	<b>3,567</b> <b>£5,749,551</b>	-
Number of <b>Council Tax Benefit</b> recipients	<b>35,217</b>	34,790
Total Council Tax Benefit expenditure	<b>£26,310,273</b>	
Total expenditure on benefit to date	<b>£95,537,946</b>	

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

	Private Tenants	Owner Occupiers
Working age and in receipt of J.S.A.	13,562	1,706
Elderly and in receipt of J.S.A.	7,021	5,540
Working age and not receiving J.S.A.	4,119	798
Elderly and not in receipt of J.S.A.	<u>1,936</u>	<u>3,045</u>
<b>Total</b>	<b>26,638</b>	<b>11,089</b>

There are **37,737** Benefit Recipients in Wirral as at 30 November 2008. By comparison there were 37,266 at 30 September 2008.

#### 4.3. Housing Benefit Fraud and Enquiries

01.04.08-30.11.2008

New Cases referred to Fraud team in period	1,434
Cases where fraud found and action taken	89
Cases investigated, no fraud found and recovery of overpayment may be sought	375
Cases under current investigation	205
Surveillance Operations Undertaken	0
Cases where fraud found and action taken;	
Administration penalty	24
Caution issued and accepted	49
Successful prosecution	16
Summons issued for prosecution purposes	12

#### 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 £180,350

**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