

WIRRAL COUNCIL

FINANCE AND BEST VALUE OVERVIEW AND SCRUTINY COMMITTEE

24 MARCH 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. FINANCIAL IMPLICATIONS

2.1. Current Economic Environment

- 2.1.1 The Bank of England quarterly inflation report projects a bleak outlook for growth of the UK economy and highlights the increasing risk of the recession being deeper and longer than first anticipated.

- 2.1.2 Inflation figures continued their descent with the official measure of inflation, CPI, falling to 3.0% and RPI inflation down to just 0.1% for January 2009. How low these figures will fall is unclear but the Bank of England (BoE) is predicting that CPI inflation will fall significantly below its target of 2%.

- 2.1.3 The BoE base rate was cut to 1% in January and to 0.5% in March in a further attempt to stimulate the economy. With interest rates now so low it is debatable whether further interest rate cuts will generate any more stimuli. The new plan of attack is quantitative easing whereby the BoE will buy up securities and gilts to help put money back into the economy. It is hoped that this coupled with the low interest rates will do enough to help the economy out of this recession.

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 money occurs for a number of reasons including;
- General Fund Balances
 - Reserves and Provisions
 - Grants received in advance of expenditure
 - Money borrowed in advance of capital expenditure
 - Schools Balances

2.2.2 As at the 28 February 2009 the Council held investments of £79.8m. The table below details these investments;

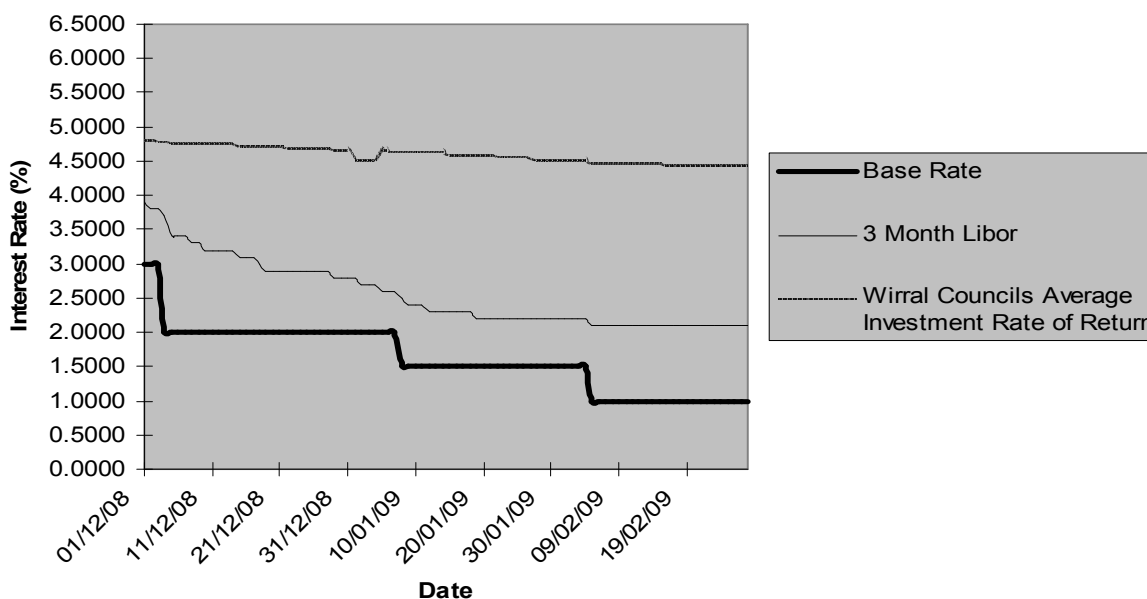
Table 1: Investments as at 28 February 2009

Investments with:	£m
UK Banks	39.5
Building Societies	20.3
Debt Management Office	0.0
Other Local Authorities	0.0
Money Market Funds	19.2
Other Unit Trusts	0.1
Gilts	0.7
TOTAL	79.8

2.2.3 Of the above investments £20m is invested in instant access funds, £49.8m 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 28 February 2009 was 5.33%. 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 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 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).

2.2.7 The 2008/09 budget for investment income is £2.7m; as at 28 February 2009 income of £4.4m had already been secured. Investment income is currently forecast to produce a surplus of £1.7m 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 to thereby earn better returns.

2.2.8 The security of the investments always takes priority over the returns.

Icelandic Investment

2.2.9 The Administrator of Heritable Bank has forecast that a material dividend will be payable in the near future. It is hoped that by April 2009 a report will be produced that will give more definitive information about the amount and/or timing of dividend payments. At this stage I remain confident that the £2million investment will be returned.

2.3 Borrowings

2.3.1 The Council undertakes borrowings to help fund capital expenditure. This year the capital programme required borrowings of £31m. However, to date no additional borrowing has been undertaken. The table below shows the total borrowings of the Council as at 28 February 2009.

Table 2: Borrowings as at 28 February 2009.

Borrowings	£m
PWLB	113.7
Market Loans	173.6
TOTAL	287.3

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 As the year has progressed and the global financial crisis has unfolded I have begun to revise the borrowing strategy. 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.

2.3.4 By not reinvesting money as investments mature I am able to use this money to temporarily fund our 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.

2.3.5 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 1.5%. By using investments to fund the capital programme in the short term the Council loses 1.5% in investment income but saves 4.5% normally paid on borrowings thereby making a net saving of 3%.

- 2.3.6 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 1.5%, significantly less than long term borrowing.
- 2.3.7 This strategy has been adopted in the short term as a reaction to complex and unique market conditions. It is not a strategy that would normally be cost effective but is beneficial at this time. The Treasury Management Team will continue to monitor the situation to ensure that as the economic conditions change the strategy is adjusted accordingly.

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 end 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 accumulative 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 28 Feb 2009	287.3

- 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

	Dec 08 £m	Jan 09 £m	Feb 09 £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 December 2008 and February 2009. 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 borrowings/ 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 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 28 February 2009.

Table 5: Interest Rate Exposure:

Interest Rate Exposure	Fixed Rate of Interest	Variable Rate of Interest	Total
Borrowings	£287m	£0m	£287m
Proportion of Borrowings	100%	0%	100%
Upper Limit	100%	100%	
Investments	£10m	£70m	£80m
Proportion of Investments	12.5%	87.5%	100%
Upper Limit	100%	100%	
Net Borrowing	£277m	£-70m	£207m
Proportion of Total Net Borrowing	134%	-34%	100%

2.4.10 The table above shows that borrowings are all 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, due to the credit crunch, as the cost of existing borrowings have remained stable and the investments, at variable rates of interest, have generated increasing levels of income.

2.4.11 However as the environment changed to one of falling interest rates the Treasury Management Team began work 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

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 28 February 2009 with the amount collected in the same period in 2007/08.

	Actual 2008/09 £	Actual 2007/08 £
Cash to Collect	118,903,958	114,380,069
Cash Collected	113,123,001	109,278,451
% Collected	95.8	95.5%

3.2. The following statement compares the amount collected for **National Non-Domestic Rates** in the period 1 April 2008 to 28 February 2009 with the amount collected in the same period in 2007/08.

	Actual 2008/09 £	Actual 2007/08 £
Total Collectable (including arrears)	67,074,730	60,690,845
Amount Outstanding	16,893,910	13,131,090
% Outstanding	25.19%	21.64%
Amount Collectable 2008/09	64,282,667	57,745,975
Net 2008/09 Cash Collected	48,846,201	45,974,106
% Collected	75.99%	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 28 February 2009.

	Council Tax	Business Rates
Reminders/Final Notices	60,971	2,862
Summonses	19,391	1,081
Liability Orders	15,336	667
Recovery action in progress		
Attachment of Earnings	1,688	
Deduction from Income Support	3,351	-
Accounts to Bailiff	8,545	379
Pre-Committal Warning Letters	3,630	-
Committal Orders Issued	4	0
Debtors Committed	0	0

Current Status of Agent Work in respect of Committals for 1 April 2008 to 28 February 2009.

Warrants of Arrest issued by Court (Bail and No Bail)	127
Warrants of Arrest (Bail) to Warrant officer	114
Warrants of Arrest (No Bail) to Warrant officer	54
Returned successful (Bail)	82
Returned successful (No Bail)	63
Returned other reasons (Bail)	5
Returned other reasons (No Bail)	0

3.5. Insolvency cases to 28 February 2009

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 28 February 2009

Bankruptcy	13
Charging orders	9
Winding up orders	0
	<u>324</u>

Status of Insolvency cases at 28 February 2009

Winding-up paid	4
Charging orders granted	33
Winding up Order	1
Supporting other petitions	3
Cases paid	78
Bankruptcy orders	94
Cases closed	97
Ongoing cases	<u>20</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:-

	2007/08 Budget	Income to 28-Feb-08	2008/09 Budget	Income to 28-Feb-09
i. School Meals	£1,404,000	£1,263,249	£1,578,400	£1,581,492
ii. Sports Centres	£3,457,100	£2,790,069	£3,579,300	£2,789,542
iii. Golf Courses	£859,800	£724,028	£885,600	£652,111
iv. Burials and Cremations	£2,344,600	£2,263,519	£2,429,200	£2,009,104
v. Building Control Fees	£876,700	£677,100	£796,700	£514,500
vi. Land Charges	£464,600	£312,000	£470,100	£183,300
vii. Car Park (Pay and Display)	£2,591,500	£2,042,200	£2,424,200	£2,160,900
viii. Car Park (Penalty Notices)	£1,116,300	£939,600	£1,149,800	£861,200

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

- (i) School Meals: The budgeted income target has been exceeded, and further income is expected to the end of the financial year to help offset increased costs.
- (i) 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: It is expected that there will be a shortfall of £200,000 at the year end.
- (vi) Land Charges: It is expected that the year end shortfall will be in the region of £200,000
- (vii) Car Parks Income (Pay and Display Tickets): It is anticipated that the year end income will be closely in line with budget.
- (viii) Car Park Income (Penalty Notices): It is anticipated that the year end income will be closely in line with the budget.

3.6.3. Sundry Debtors

	Actual 2008/09	Actual 2007/08
Amount Billed in last 12 months as at 28.02.09	£76,325,070	£67,899,466
Total outstanding as at 28.02.09	£21,196,160	£22,197,949
Arrears at 28.02.09	£13,311,612	£12,359,275
Number of invoices in arrears at 28.02.09	12,543	11,424
Number of reminders 01.04.08 to 28.02.09	30,448	29,007

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 28 February 2009.

	2008/09	2007/08
Number of Private Tenant recipients	26,988	25,987
Total rent allowance expenditure	£94,518,346	
Number under the Local Housing Allowance scheme (included in the above)	4,451	-
	£11,181,024	
Number of Council Tax Benefit recipients	35,635	34,921
Total Council Tax Benefit expenditure	£26,446,696	
Total expenditure on benefit to date	£120,965,042	

- 4.2. The following statement provides information concerning the breakdown according to client type as at 28 February 2009

	Private Tenants	Owner Occupiers
Working age and in receipt of J.S.A.	13,623	1,720
Elderly and in receipt of J.S.A.	7,018	5,523
Working age and not receiving J.S.A.	4,406	855
Elderly and not in receipt of J.S.A.	<u>1,941</u>	<u>3,120</u>
Total	26,988	11,218

There are **38,206** Benefit Recipients in Wirral as at 28 February 2009. By comparison there were 37,097 at 28 February 2008.

4.3. **Housing Benefit Fraud and Enquiries**

01.04.08- 28.02.2009

New Cases referred to Fraud team in period	1,955
Cases where fraud found and action taken	125
Cases investigated, no fraud found and recovery of overpayment may be sought	126
Cases under current investigation	237
Surveillance Operations Undertaken	0
Cases where fraud found and action taken;	
Administration penalty	33
Caution issued and accepted	72
Successful prosecution	21
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 £224,535.

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

FNCE/60/09