

WIRRAL COUNCIL

COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE

1 JULY 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 UK is in a recession with economic growth forecast to fall by 3.8% in 2009. The recent glimmers of improvement need to be viewed with some caution as it is easy to improve on figures that have been so bad in recent months.

2.1.2 Inflation figures continued their descent with the official measure of inflation, CPI, falling to 2.3% and RPI falling into deflation territory at -1.2% for May 2009. While CPI remains above the Bank of England (BoE) target of 2% it continues to fall and is expected to fall to near 0% in the second half of 2009.

2.1.3 The BoE base rate remains at 0.5% and is forecast to stay at this level throughout 2009. The BoE continues to try and stimulate the economy through Quantitative Easing (QE) and at their meeting in May 2009 the members of the Monetary Policy Committee voted to increase the QE programme by a further £50billion. It is hoped that this will provide sufficient encouragement to the economy to help generate growth in the near future.

2.2. Investments

2.2.1. The Treasury Management Team invests 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
- Daily cashflow/ working capital

2.2.2 As at the 31 May 2009 the Council held investments of £110m. The table below details these investments;

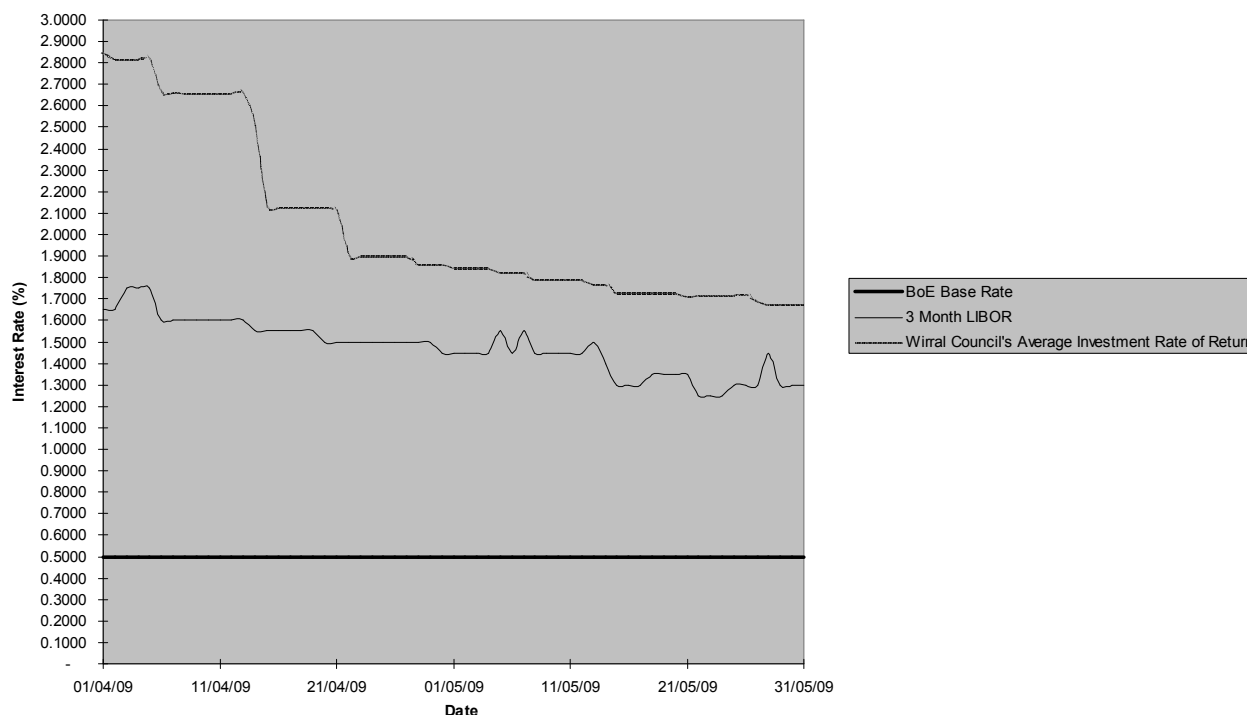
Table 1: Investments as at 31 May 2009

Investments with:	£m
UK Banks	69
Building Societies	13
Debt Management Office	0
Other Local Authorities	0
Money Market Funds	27
Gilts and Other Unit Trusts	1
TOTAL	110

2.2.3 Of the above investments £41m is invested in instant access funds, £63m is invested for up to 1 year, £2m 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 31 May 2009 was 2.03%. 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 2009/10 investment income budget has been adjusted down to £1.3m to reflect the low interest rates that are anticipated to continue throughout the financial year. With low interest the Council will not achieve the large surpluses that have been made in the past few years.

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

Icelandic Investment

2.2.9 The Council had a deposit 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 has acted, and continues to act, prudently and properly in all its investment activities.

2.2.10 Based on present information, the Heritable Bank Administrators projections indicate a base case return to creditor of between 70-80 pence in the pound. The Administrators have estimated that the return to creditors improves where the book is run-off over a longer time period (i.e. 70 pence return through to end of 2010 and 80 pence return through to end of 2012). If conditions improve over this period of time it is possible that the final recovery could be higher than the base case above and the Council remains confident that the money will be repaid in full.

2.2.11 The first payment from the Administrators of 15% should be returned to the Council in July 2009.

2.3. Borrowings

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

Table 2: Borrowings as at 31 May 2009.

Borrowings	£m
PWLB	110
Market Loans	174
Temporary Loans	10
TOTAL	294

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 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.

2.3.4 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.

- 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 0.7%. By using investments to fund the capital programme in the short term the Council loses 0.7% in investment income but saves 4.5% normally paid on borrowings thereby making a net saving of 3.8%.
- 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 0.5%, 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 cumulative CFR and net borrowing of the Council.

Table 3: Net External Borrowing compared with CFR.

	£m
CFR in previous year (2008-09 estimate)	317
additional CFR in current year (2009-10)	14
additional CFR in 2010-11	12
additional CFR in 2011-12	8
Cumulative CFR	351
External Borrowing as at 31 May 2009	294

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

	Apr 09 £m	May 09 £m
Authorised limit	475	475
Operational Boundary	460	460
Total Council Borrowing	294	294

2.4.7 The table above shows that neither the authorised limit nor the operational boundary was breached in April or May 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. Table 5 shows the interest rate exposure as at 31 May 2009.

Table 5: Interest Rate Exposure:

Interest Rate Exposure	Fixed Rate of Interest	Variable Rate of Interest	Total
Borrowings	£284m	£10m	£294m
Proportion of Borrowings	96.6%	3.4%	100%
Upper Limit	100%	50%	
Investments	£6m	£104m	£110m
Proportion of Investments	5.5%	94.5%	100%
Upper Limit	100%	100%	
Net Borrowing	£278m	£-94m	£184m
Proportion of Total Net Borrowing	151%	-34%	100%

2.4.9 The table above shows that borrowings are 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 borrowings has remained stable and the investments, at variable rates of interest, have generated increasing levels of income.

2.4.10 As the 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 Council loans have expensive penalties for early repayment or rescheduling which makes changing the debt position difficult.

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

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

		31-May-09	31-May-09
	Borrowings Maturity (years)	£m	%
Total Short Term Borrowing	Less than 1 year	24	8
Long Term Borrowing	Over 1 year under 2 years	15	5
	Over 2 years under 3 years	16	5
	Over 3 years under 4 years	12	4
	Over 4 years under 5 years	28	10
	Over 5 years under 10 years	34	12
	Over 10 years under 20 years	39	13
	Over 20 years under 40 years	33	11
	Over 40 years under 60 years	74	25
	Over 60 years under 70 years	19	7
Total Long Term Borrowing		270	92
Total Borrowing		294	100

3. REVENUES COLLECTION

3.1. The following statement compares the amount collected for **Council Tax** in the period 1 April 2009 to 31 May 2009 with the amount collected in the same period in 2008/09.

	Actual 2009/10 £	Actual 2008/09 £
Cash to Collect	123,144,155	119,401,872
Cash Collected	24,295,294	23,569,789
% Collected	19.7%	19.7%

- 3.2. The following statement compares the amount collected for **National Non-Domestic Rates** in the period 1 April 2009 to 31 May 2009 with the amount collected in the same period in 2008/09.

	Actual 2009/10 £	Actual 2008/09 £
Total Collectable (including arrears)	75,845,824	66,002,023
Amount Outstanding	64,623,372	54,123,317
% Outstanding	85.20%	82.00%
Amount Collectable 2009/10	66,949,292	64,772,775
Net 2009/10 Cash Collected	11,045,295	12,605,089
% Collected	16.50%	19.46%

- 3.3. It is pleasing to note that despite the current economic climate Council Tax payment is currently maintained at the 2008-9 level. The 100% level for empty Business Rate 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. 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 2009 to 31 May 2009.

	Council Tax	Business Rates
Reminders/Final Notices	20,519	704
Summonses	5,916	0
Liability Orders	1,965	0
Recovery action in progress		
Attachment of Earnings	303	
Deduction from Income Support	592	-
Accounts to Bailiff	1,602	83
Pre-Committal Warning Letters	973	-
Committal Orders Issued	4	0
Debtors Committed	0	0

Current Status of Agent Work in respect of Committals for 1 April 2009 to 31 May 2009.

Warrants of Arrest issued by Court (Bail and No Bail)	25
Warrants of Arrest (Bail) to Warrant officer	30
Warrants of Arrest (No Bail) to Warrant officer	8
Returned successful (Bail)	7
Returned successful (No Bail)	5
Returned other reasons (Bail)	1
Returned other reasons (No Bail)	0

3.5. Insolvency cases to 31 May 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 31 May 2009

Bankruptcy	2
Charging orders	2
Winding up orders	0
	<u>336</u>

Status of Insolvency cases at 31 May 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	95
Ongoing cases	19
	<u>336</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:-

	2008/09 Budget	Income to 31-May-08	2009/10 Budget	Income to 31-May-09
i. School Meals	£1,578,400	£72,692	£1,607,800	£185,628
ii. Sports Centres	£3,539,300	£387,918	£3,867,300	£374,027
iii. Golf Courses	£885,600	£165,831	£912,200	£259,402
iv. Burials and Cremations	£2,429,200	£297,907	£2,429,200	£214,313
v. Building Control Fees	£756,700	£94,382	£651,900	£117,760
vi. Land Charges	£470,100	£46,887	£358,300	£45,386
vii. Car Park (Pay and Display)	£2,424,200	£237,333	£2,496,900	£286,428
viii. Car Park (Penalty Notices)	£1,149,800	£163,958	£1,149,800	£150,130

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

- (i) School Meals: The first two months income for school meals includes the Easter holiday period, and so income is much higher when compared to the same time last year, which was less affected by an earlier Easter.
- (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: It is anticipated that the income will be achieved.
- (vi) Land Charges: It is anticipated that the income will be achieved.
- (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 2009/10	Actual 2008/09
Amount Billed in last 12 months as at 31.05.09	£77,783,290	£65,812,404
Total outstanding as at 31.05.09	£18,916,594	£18,346,400
Arrears at 31.05.09	£12,122,919	£12,344,667
Number of invoices in arrears at 31.05.09	12,111	11,883
Number of reminders 01.04.09 to 31.05.09	5,244	6,556

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 May 2009.

	2009/10	2008/09
Number of Private Tenant recipients	27,627	26,161
Total rent allowance expenditure	£19,176,357	
Number under the Local Housing Allowance scheme (included in the above)	5,583 £5,187,761	-
Number of Council Tax Benefit recipients	36,519	35,029
Total Council Tax Benefit expenditure	£29,087,706	
Total expenditure on benefit to date	£53,451,824	

- 4.2. The following statement provides information concerning the breakdown according to client type as at 31 May 2009

	Private Tenants	Owner Occupiers
Working age and in receipt of J.S.A.	13,982	1,812
Elderly and in receipt of J.S.A.	7,026	5,562
Working age and not receiving J.S.A.	4,655	1,200
Elderly and not in receipt of J.S.A.	<u>1,959</u>	<u>3,174</u>
Total	27,627	11,748

There are **39,375** benefit recipients in Wirral as at 31 May 2009. By comparison there were 37,276 at 31 May 2009. There has been a notable increase in owner occupiers of working age who are not in receipt of Job Seekers Allowance .

4.3. **Housing Benefit Fraud and Enquiries**

	01.04.08 to 31.03.09	01.04.09 to 31.05.09
New Cases referred to Fraud team in period	2087	406
Cases where fraud found and action taken	158	14
Cases investigated, no fraud found and recovery of overpayment may be sought	158	158
Cases under current investigation	237	219
Surveillance Operations Undertaken	0	0
Cases where fraud found and action taken;		
Administration penalty	34	5
Caution issued and accepted	101	7
Successful prosecution	23	2
Summons issued for prosecution purposes	12	1

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 2009/10 is £310,919 with an overall limit of £777,298 which the Authority must not exceed. To date I have paid £15,361

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/139/09