AWICS Independence.....Integrity.....Value

Adrian Waite (Independent Consultancy Services) Limited

2nd January 2018

Council Plan & Budget Consultation,
Communications Team,
Cumbria County Council,
Cumbria House – first floor,
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CA1 1RZ.

Sent by e-mail to: budgetconsultation@cumbria.gov.uk

Dear Cumbria County Council,

Budget Consultation

I write in response to your budget consultation in my capacity as a resident of Cumbria and as Managing Director of 'AWICS Limited' a management consultancy company that is based in Cumbria. My observations are as follows.

Specific Questions

My responses to your specific questions are:

1 On the Council Plan
(a) Do you agree with the Council's proposed new vision? Yes
(b) Do you agree with the Council's new outcomes? Yes

2 On Council Tax, should we:

(a) Increase Council Tax by 1.99% to avoid having to make any more savings on top of the £33,581million that we currently need to find? This together with the Government's 2% increase to help fund Adult Social Care will take the total increase to 3.99% Yes
(b) Not increase Council Tax by 1.99% which would mean an additional £4million of savings would need to be identified across council services? No

3 Do you have any further comments you would like to make?

Yes, see below.

Adult Social Care

The Council's budget for Health & Care services was over-spent by £0.6million in 2015/16 (due to pressures in Independent Sector Older Adults, Independent Sector Younger Adults and Personal Contributions). In 2015/16 there was also an overspend of £0.7million in Cumbria Care that was met by transferring funds from earmarked reserves.

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In 2016/17 there was an overspend of £4.9million on Health, Care and Community Services. This was due to reduced income from personal contributions alongside cost pressures in Cumbria Care and the non-delivery of savings. Overall the directorate had twenty Medium Term Financial Plan savings schemes to deliver in 2016/17 totalling £14.4million. During the year £10.6million was delivered with under delivery of savings of £3.8million.

The Revenue and Capital Budget Monitoring Report to 30th September 2017 that was reported to Cabinet in December 2017 included an over-spend in Health, Care & Community services of £4.5million. This is primalrily due to the non-delivery of £3.9million of planned savings.

The Council's budget papers for 2017/18 stated that during the year commissioned adult care packages would be reviewed in line with previous decisions of Council, that an additional saving had been identified from this work that would be delivered in 2017/18 and that work has been underway with service users to redesign care and support on an individual basis, ensuring their needs are met appropriately. I note that the budget papers for 2018/19 also refer to a review of commissioning, procurement and management of activities and costs across all services and particularly in Health and Care and Children and Families services. The Council's draft budget also provides for the re-profiling of adult medium term financial plan savings of £3.2million in 2018/19, £0.6million in 2019/20 and £0.1million in 2020/21. I assume that this work is ongoing and that this is the reason why not all the savings have been achieved. It is not clear whether this has implications for the setting, monitoring or management of the budget for 2018/19 or subsequent years.

I am not sure of the details of the savings that have been implemented or are proposed, or the amount that has been saved to date but trust that it will not reduce the level of care provided to adult social care clients.

I note that the Council has included £3.5million in the draft budget to reflect service pressures on learning disability – transforming care. The Improved Better Care Funding comes to an end after 2019/20 producing an additional pressure of £5.8million in 2020/21 and 2021/22.

The management of the Adult Social Care budget during recent years therefore appears to be characterised by serous budget pressures, overspending and the non-achievement of savings. It may therefore be relevant to consider whether current budgets are sufficient; and whether the current approach to setting, managing and monitoring budgets and savings is appropriate.

I understand that the Council intends to continue to invest in international recruitment of social workers to reduce the cost of agency staff in Children and Families services. In view of the government's intention to take Britain out of the European Union and to reduce net migration it may become more difficult, or even impossible, for the Council to continue with this policy. Indeed, there are reports that foreign nationals who are already employed in the United Kingdom are starting to leave. In this situation, I would suggest that the Council should consider the risk that this policy may become untenable, the operational and financial effects that would happen if the risk materialised and what approaches could be taken to managing this risk as part of the risk management strategy.

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Clearly it is also important for the Council to continue to develop effective joint working between Adult Social Care services, the National Health Service; Social Housing providers; and the District Councils in their capacity as the strategic housing authorities. This should include continuing to provide 'Supporting People' funding and supporting the development of new supported housing, especially Extra Care Elderly housing, both as a facilitator and through providing funding (see observations on capital programme).

It appears to me that the financial management of Adult Social Care should be reviewed and that it is likely that the potential for savings may have been exhausted. There is a need to ensure that the Adult Social care services that the Council provides are protected as much as possible.

Children's Services

The Council's budget for Children's services over-spent by £3.0million in 2015/16 (principally due to increases in the cost of children looked after) and over-spent by £8.0million in 2016/17 (primarily linked to additional costs linked to commissioning of places for Children Looked After).

The other significant element of the pressure in 2016/17 was linked to the additional cost of Externally Provided Workforce (agency staff) which was £2.5million for the year. Actions were in place to reduce the Externally Provided Workforce pressure in 2017/18 but the Council is now including £0.5million in the 2018/19 budget for this factor as a new pressure.

The Council had identified service pressures in Children's services of £5million in 2017/18. Despite this, the Revenue and Capital Budget Monitoring Report to 30th September 2017 that was reported to Cabinet in December 2017 included an over-spend in the Children's & Families services directorate of £9.7million. This primarily relates to Commissioning of places for Children Looked After pressure of £7.2million and the additional cost of externally provided workforce of £1.4million.

Children's Services are facing financial pressure in most local authorities. I note that the Council has included £6.8million in the draft budget to meet service pressures for children's services.

It was reported in the annual accounts for 2016/17 that work was ongoing to improve preventative solutions within the early year support services to help manage future budget pressures. In 2018/19, the Council proposes to save £1.3million on the budgets for prevention and early intervention. However, it is usually considered that expenditure on prevention and early intervention offers good value for money in that it prevents the need to provide costlier responsive services. I trust that the Council has considered this issue.

The management of the Children's services budget during recent years appears to be characterised by serous budget pressures and overspending. Furthermore, the same budgets appear to be consistently over-spent. It may therefore be relevant to consider whether current budgets are sufficient; and whether the current approach to setting, managing and monitoring budgets and savings is appropriate.

It appears to me that the financial management of Children's services should be reviewed and that it is likely that the potential for savings may have been exhausted. There is a need to ensure that the Children's services that the Council provides are protected as much as possible.

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Central Budgets

The Council's budget for other corporate items was under-spent by £5.7million in 2015/16. The main elements of this were Slippage in the capital programme, Treasury Management and the contingency for inflation and other items. The Council's budget for other corporate costs (Treasury Management, inflation, dividends, insurance and residual and past service pension costs) was underspent by £10.1million in 2016/17. In December 2017 it was reported to Cabinet that there was a projected under-spend of £10.9million in corporate budgets.

Given the Council's commitment to focus on funding front-line services I find it surprising that central and corporate budgets appear to have been consistently and significantly over-provided at the same time as significant savings have been made in front-line Adult Social Care and Children's services that the Council has struggled to deliver. It is possible that the Council's central budgets contain what accountants call 'padding', 'budget slack' or 'over budgeting'. I think there may be a missed opportunity to allocate resources to front-line services. I would therefore suggest that central budgets are reviewed to ensure that they are set at an appropriate level in future.

I understand that all these budget variances compare actual expenditure with the revised budget. It may be worthwhile considering if there were any significant adjustments to budgets at the revised estimate stage. For example, if a budget was increased at revised estimate stage to reflect a projected over-spend; the variation between actual expenditure and the revised estimate would be lower than the variation between actual expenditure and the original estimate.

One aspect of budget monitoring that may be worthwhile considering is the timeliness of budget monitoring reports. For example, the budget monitoring report for the quarter ended September 2017 was not reported to Cabinet until December 2017 – some three months later! It may be appropriate to consider making such reports within a month of the quarter end so that if any decisions are required they can be taken promptly.

Efficiency Savings

The Council's proposed savings for 2018/19 and subsequent years are as follows:

Themed saving proposals	2018/19	2019/20	2020/21	2021/22
	£million	£million	£million	£million
Revised Budget Gap	33.581	46.603	69.410	73.029
Working Together	0.537	0.549	0.543	0.537
Prevention and Early Intervention	1.277	1.592	1.592	1.592
Digital Transformation	0.342	1.278	1.278	1.278
Enterprise and Efficiency	31.425	24.295	22.160	16.284
Subtotal	33.581	27.714	25.573	19.691
Revised Budget Gap	0.000	18.889	43.837	53.338

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The Council budgeted for a £3.7million cross-cutting management saving in 2015/16 that was not achieved. It is noted above that planned savings in adult social care and children's services were not achieved in 2016/17. The forecast outturn for 2017/18 is that a total of £11.9million of savings are forecast to be delivered by 31st March 2018 out of a total of £16.4million, giving a shortfall of £4.5million against this target. It may be appropriate for the Council to review how it identifies, implements and monitors the delivery of savings in future years.

The Council has identified savings to meet the calculated budget gap in 2018/19 but has yet to identify the savings that are likely to be required in future years. It is stated that a programme of service reviews will be planned on a rolling basis throughout the Council and this would appear to me to be a good approach. This approach was adopted successfully by Impact Housing Association when I was Chair. I would suggest that the approach to this should be to focus all resources on delivery of services to service-users, to adopt a 'bottom-up' rather than a 'top-down' approach and to reduce layers of management.

Reserves

General fund balances stood at £9.4million at 31st March 2017; and there were also £62.8million in earmarked reserves giving the Council total reserves of £72.2million. This is the equivalent of about four months of Council Tax revenue.

The earmarked reserves include: Revenue Grants reserve (£34.5million), Insurance reserve (£9.9million), Other services reserves (£6.3million), Directorates reserves (£5.8million), and Modernisation reserve (£5.0million). It is not clear to me that all these reserves are intended for specific purposes and it may be that some are actually general reserves that are potentially available to fund general fund expenditure.

I understand that the Council has reviewed earmarked reserves and that a one-off reduction of £2million was proposed for 2017/18. It may be worthwhile considering whether it would be appropriate to make further reductions in earmarked reserves in 2018/19.

Capital Programme and Asset Management

The Council has identified these priorities for capital investment:
- Building new care homes;
- Extra care housing;
- Investing in the council's infrastructure like roads and bridges;
- A range of educational initiatives.

I note that the Council plans to continue to invest in building new care homes and extra care housing and that one potential project is to develop an extra care elderly scheme at the site of the former Edenside Residential Care Home in Appleby in partnership with the Oaklea Trust.

In my view investing in extra care housing is particularly important in view of the projected increase in the elderly population in Cumbria and the population of other vulnerable people and the need to find affordable housing for them. This would obviously be to the advantage of the elderly and other vulnerable people themselves but would also enable the Council to fulfil its responsibilities for adult social care within its budgets.

In 2015/16 the Council approved a capital programme of £133.9million but only £110.2million was spent with there being £23.7million of 'slippage' – mostly in the Environmental and Community services.

In 2016/17, the Council's capital investment totalled £126.5million. The revised capital programme was £145.7million. The variance between delivered capital investment and planned capital investment was £19.2million and that relates to slippage of £23.9million, partially offset by accelerated expenditure of £4.8million.

The Council approved a capital programme of £183.0million for 2017/18 in February 2017. In December 2017 it was reported to Cabinet that projected expenditure for the year is now £158.2million, representing slippage of £24.8million.

The capital programme in 2016/17 was funded by: Government Grants and contributions £93.2million; Prudential borrowing £23.6million; revenue contributions £5.8million and capital receipts £3.9million.

The Council held £15.7million in capital reserves at 31st March 2017, including £10.9million in useable capital receipts. This compares with £15.8million at the end of the previous year. It is not clear how the Council plans to use these receipts.

I think this raises the following issues:

- Project Management – Whether the Council's project management arrangements are effective in view of the under-spending that occurred in 2015/16 and 2016/17, and is projected to occur in 2017/18.
- Government Grants and Contributions –This source of funding is likely to decline, and it may be worthwhile considering the implications of this.
- Prudential Borrowing –It may be worthwhile considering the Council's Prudential Borrowing Strategy including whether any additional borrowing to support the capital programme would be appropriate.
- Capital Receipts – It may be worthwhile considering the Council's capacity to generate capital receipts in future, how the generation of capital receipts relates to the Asset Management strategy, whether there are any plans to dispose of particular assets, and any risks that the planned level of receipts may not be realised.

The Council's long-term assets including property, plant and equipment are valued at £1.1billion in the 2016/17 accounts. These are considerable assets and it may be worthwhile for the Council to consider whether it could 'sweat its assets' more effectively through reviewing its approach to asset management. Traditionally, local authorities have not paid much attention to asset management, but this is now changing. For example, many authorities have established arms' length arrangements for investment in infrastructure including housing.

Risk Management

The budget consultation papers do not refer to the Council's approach to risk management, including the process that the council follows, the principal financial risks that have been identified, the potential severity and likelihood of occurrence of those risks and any mitigating strategies that the council has identified.

Any budget or financial plan represents merely one possible financial outcome for the year or financial period under consideration – even though it is the outcome that is considered most likely and for which plans are made. However, the budget and financial plan are underpinned by data and assumptions and there is a risk that in practice events may differ from those that have been assumed. There is therefore a need to identify key variables and to subject them to rigorous sensitivity analysis and 'stress testing'.

'Stress testing' involves considering what combination of risks would 'break' the budget or financial plan if they were to occur and considering how to manage the possibility of such a combination of risks occurring.

Risks that should be considered include inflation and Treasury Management (see below).

Inflation

I understand that the Council's budget for 2017/18 included a saving of £2million in 2017/18 and of £4million in 2018/19 on reduced interest rates and that the proposed budget includes a reduced overall inflation budget following updated inflation forecasts and a review of costs to which inflation is applied. I am therefore surprised that the Council's budget assumes that inflation will reduce.

I think that inflation is a risk to local authorities moving forward. The Office for Budgetary Responsibility revised its inflation forecasts upward in November 2017 and many commentators consider that inflation will exceed these forecasts. I therefore trust that the Council has included increased inflation as a risk in its risk assessment and has appropriate arrangements in place to manage this risk.

Treasury Management

The Council proposes to make Treasury management savings from continuing the policy of utilising a level of internal borrowing to finance capital investment in year. The summary of budget savings proposals states that each year the ability to delay further external borrowing is limited due to increasing bank lending rates.

It can be expected that in the long-run interest rates will return to a rate somewhat above the inflation rate. However, most economists do not expect this to happen for some time with typical forecasts suggesting periodic increases of 0.25% with interest rates reaching 1.25% in 2022.

Interest rates are currently very low by historic standards and, as they are lower than the rate of inflation represent negative interest rates. This means that the interest that people receive on their investments does not compensate them for the reduction in the value of their investment due to inflation. This is the intention of the government and the Bank of England who want to provide an incentive for people to spend and a disincentive for them to save. This policy has been adopted to persuade households to reduce their saving and increase their borrowing thus maintaining demand in the economy despite the current low levels of commercial investment and exports. This approach is resulting in a ballooning of private debt and does not appear to me to be sustainable. It was a similar ballooning of debt that caused the banking crisis and economic recession in 2008.

I am sceptical about the economic forecasts that have been produced and think that interest rates may increase sooner and more significantly, because:

- The Bank of England has been set a target of maintaining inflation at or below 2%. It is now almost twice that level. Furthermore, increasing inflation increases the gap between inflation rates and interest rates and increases the incentives for households to spend rather than save.
- Sterling has been under pressure since the referendum on Britain's membership of the European Union and has declined in value by about 15%. It has been the policy of successive United Kingdom government's over at least the last 100 years to maintain Sterling at as high a value as possible. Policy since 2016 has been a departure from this approach and it is not clear how far the current United Kingdom government is prepared to let the value of sterling fall before they act to support it. Further pressure on sterling may force the government and the Bank of England to raise interest rates to encourage international investors to buy sterling rather than to sell it.

Local authorities can, and do, protect themselves from the possibility of increases in interest rates by borrowing long-term at fixed rates of interest. This means that even a large and sudden increase in interest rates would have a relatively gradual effect on capital financing costs in housing revenue accounts. In these circumstances it may be advisable for the Council to consider borrowing money long-term at fixed rates of interest while the interest rate remains relatively low.

Implications of Local Government Finance Settlement 2018/19

The provisional local government finance settlement for England for 2018/19 was not available to the Council when this consultation was started as it was announced on 19th December 2017. The main points of the provisional settlement include:

- Local authorities will be able to increase Council Tax by up to 3% without a referendum, in line with inflation. However, this is not enough to fund service pressures.
- Most Combined Authority Mayors will not have a limit on increases that they can make in the precept if they can secure the agreement of constituent authorities.
- Local government will retain 75% of business rates from 2020/21. Revenue Support Grant and Public Health Grant will be incorporated into this system.
- There will be ten 100% business rate retention pilots in 2018/19.

The increased flexibility around Council Tax increases offers the Council an opportunity to raise additional funds by increasing Council Tax by a further 1%. I would suggest that the Council take advantage of this opportunity (see below).

The delay in implementing the 100% local retention of business rates will have an impact on the Council's finances that will need to be assessed.

The Council's bid to become one of the 100% business rate retention pilots in 2018/19 has not been successful.

Retained Business Rates

I note that the draft budget assumes that Business rate income will increase due to inflation and growth. The assumed increase in revenues is £0.5million in 2018/19, £1.8million in 2019/20, £3.6million in 2020/21 and £5.4million in 2021/22. However, with the current economic situation being at best 'uncertain' and at worst 'adverse' it appears to me that there is a serious risk that these increased revenues will not materialise. It may be appropriate to address this situation as part of the risk analysis.

At the time of preparing the draft budget, the council was awaiting the outcome of Cumbria's application to become a 100% Business Rates Retention pilot for 2018/19 The draft budget assumes that £5.0million will be received as part of the business rate pilot. However, the application has been unsuccessful, and it is unclear how the Council intends to make good the loss of the £5.0million that has been assumed in the draft budget.

At the time of preparing the draft budget, the council was also awaiting announcements from government on the 100% Business Rates Retention system. The introduction of the 100% Business Rates Retention system could significantly impact on the future financial assumptions. At this stage funding assumptions for 2020/21 and 2021/22 are based on the continuation of the current level of Retained Business Rates (10%) plus Top up Grant. This is obviously affected by the government's announcements.

Council Tax

In common with most local authorities, Cumbria County Council is clearly experiencing significant budget pressures caused by reductions in government funding, restrictions on the Council's ability to raise Council Tax and increasing need especially for Adult Social Care and Children's services.

This is the reason why I support the Council's proposals to increase Council Tax in 2018/19 by 3.99% principally to provide funding for Adult Social Care services.

Following the announcement of the Local Government Finance settlement for 2018/19 in December 2017, I think that the Council should take advantage of the opportunity to increase Council Tax by 3% rather than 2% without holding a referendum (see above).

I would also suggest that Cumbria County Council should consider holding a referendum on the option of increasing Council Tax to the level that would be required to fund Adult Social Care, Children's services and other services adequately. I would vote in favour of such a proposal.

I note that the draft budget assumes that Council Tax revenues will increase due to Council Tax growth and increased collection rates. The assumed increase in revenues is £2.8million in 2018/19, £2.3million in 2019/20, £5.8million in 2020/21 and £4.3million in 2021/22. However, with the current economic situation being at best 'uncertain' and at worst 'adverse' it appears to me that there is a serious risk that these increased revenues will not materialise. It may be appropriate to address this situation as part of the risk analysis.

Fair Funding Review

The detail and timing of the Fair Funding Review was also awaited at the time this consultation started. The Fair Funding Review could significantly impact on the future financial assumptions. At the same time as announcing the financial settlement for 2018/19, Sajid Javid, the Secretary of State for Communities & Local Government, published a consultation paper on what he described as a fairer funding system for local government. He said that:

"I am today publishing a formal consultation on a review of relative needs and resources. I aim to implement a new system based on its findings in 2020/21. One particular issue that has caused concerns for some councils is the so-called negative Revenue Support Grant.

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"I do recognise the strength of feeling in local government around this issue. So I can confirm that my department will be looking at fair and affordable options for dealing with negative Revenue Support Grant and we will formally consult on proposals in the spring."

The Council has received adverse local government finance settlements in recent years and it is therefore important that the Council engages fully with the Fair Funding Review when appropriate to ensure that its outcome is at best beneficial for the Council and at worst no more adverse than the current position.

Devolution

Proposals for devolution to Cumbria appear to have 'stalled'. This is unfortunate as it leaves Cumbria in an adverse position when compared to those authorities that have concluded devolution 'deals'. For example, the Council will not benefit from the additional flexibilities announced in the local government finance settlement for the Mayors of combined authorities.

I think it is becoming clear that the Council will neither be able to sustain its services nor address the numerous issues that face Cumbria adequately unless there is significant devolution of resources and responsibilities from central government to Cumbria County Council.

In view of this, I think that the Council should prioritise the devolution issue and should aspire to the level of devolution that has been achieved by the Scottish Government as this is the most comprehensive model of devolution that has yet to be achieved in the United Kingdom.

Equalities Information

Please see the attached appendix.

Conclusions

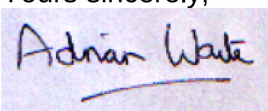
My principal conclusions are as follows:

- The financial management of Adult Social Care should be reviewed as it is likely that the potential for savings may have been exhausted. There is a need to ensure that the Adult Social care services that the Council provides are protected as much as possible.
- The financial management of Children's services should be reviewed as it is likely that the potential for savings may have been exhausted. There is a need to ensure that the Children's services that the Council provides are protected as much as possible.
- It is possible that the Council's central budgets contain what accountants call 'padding', 'budget slack' or 'over budgeting'. I think there may be a missed opportunity to allocate resources to front-line services I would therefore suggest that central budgets are reviewed to ensure that they are set at an appropriate level in future.
- The timeliness of budget monitoring reports should be considered including the possibility of making reports within a month of the quarter end so that if any decisions are required they can be taken promptly.
- It is stated that a programme of service reviews will be planned on a rolling basis throughout the Council and this would appear to me to be a good approach. This approach was adopted successfully by Impact Housing Association when I was Chair. I would suggest that the approach to this should be to focus all resources on delivery of services to service-users, to adopt a 'bottom-up' rather than a 'top-down' approach and to reduce layers of management.

- It may be worthwhile considering whether it would be appropriate to make further reductions in earmarked reserves in 2018/19.
- Aspects of the Capital Programme that should be reviewed include project management, government grants and other contributions, prudential borrowing, capital receipts and asset management.
- Aspects of Risk Management that should be considered include inflation and Treasury Management.
- Following the announcement of the Local Government Finance settlement for 2018/19 in December 2017, the Council should take advantage of the opportunity to increase Council Tax by 3% rather than 2% without holding a referendum (see above).
- The Council should also consider holding a referendum on the option of increasing Council Tax to the level that would be required to fund Adult Social Care, Children's services and other services adequately. I would vote in favour of such a proposal.
- The Council has received adverse local government finance settlements in recent years and it is therefore important that the Council engages fully with the Fair Funding Review when appropriate to ensure that its outcome is at best beneficial for the Council and at worst no more adverse than the current position.
- The Council should prioritise the devolution issue and should aspire to the level of devolution that has been achieved by the Scottish Government, as this is the most comprehensive model of devolution that has yet to be achieved in the United Kingdom.

I hope that you find these observations useful. If you have any questions about any of the issues that I have raised I would be pleased to hear from you.

Yours sincerely,



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