ADRIAN WAITE

29th December 2020

Cllr Stuart Young,
Leader of the Council,
Cumbria County Council,
Cumbria House,
107-117 Botchergate,
Carlisle,
Cumbria.
CA1 1RZ.

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

Dear Cllr Young,

Budget Consultation

I write in response to your budget consultation in my capacity as a resident of Cumbria. I am also 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 Council Tax, should we:

(a) Increase Council Tax by 1.99% to avoid having to make even more savings on top of the £6million 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%. (This increase is for the county council's element of council tax only.)

YES

(b) Not increase Council Tax by 1.99% - which would mean an additional £4.8m of savings would need to be identified across council services bringing the total savings needed for 2020/21 to £10 million.

NO

But please see my further comments on Council Tax below.

2 Do you have any comments about the proposed approach to meeting the challenges ahead and building a financially sustainable future?

Yes, see below.

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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). In 2017/18 the Children & Families service over-spent by £11.5million (primarily because of an over-spend in Commissioning of places for Children Looked After of £9.7million and the additional cost of externally provided workforce of £1.4million). In 2018/19 there was an over-spend of £11.2million in the children looked after service.

The budget for 2019/20 included provision for budget pressures including £8.0million for looked after children, £1.0million for learning disability and £0.6million for special educational needs. However, it also included savings in children's services including £2.1million in promoting independence for children, £0.4million for service redesign – early help and 0-19 healthy child programme integration and £0.1million for service redesign – residential care – children's investment in 2 x 4 bed residential care provision for children looked after.

However, the Council's budget monitoring report for the first half of 2019/20 forecasts an overspend of £7.3million on children's services. This includes £4.5million in children looked after placements. I also understand that not all the planned savings have been realised. There is also an increasing deficit in the high need block of the dedicated schools' grant budget.

I understand that the number of Children Looked After at 30th September 2019 is 716. This is consistent with the position reported at 30th June 2019 of 716 placements. However, despite the total number being consistent new placements have been at greater levels of expenditure than placement exits and there have been several placement changes during this period also resulting in an increase to the projected expenditure at year end.

I note that the Medium-Term Financial Plan includes an additional £9million from 2020/21 onwards for Children Looked After to reflect current expenditure, service activity and associated costs. I think this is a step in the right direction.

The management of the Children's services budget during recent years appears to be characterised by serious budget pressures and overspending. Furthermore, the same budgets appear to be consistently over-spent. The Council states that it is committed to ensuring that Children Looked After receives the best start in life and their care needs are appropriately met. It may therefore be relevant to consider whether current budgets are enough (even after the proposed increase in 2020/21); and whether the current approach to setting, managing and monitoring budgets and savings is appropriate.

There appears to be a disconnect between what is in the Children's services budget and what the expenditure and income is in reality; and that this has been the case for some years. In my response to your budget consultation in January 2019, I suggested that it was likely that the potential for savings in Children's services may had already been exhausted and that the financial management of Children's services should be reviewed. It appears to me that events during 2019 have confirmed this view. There is a need to ensure that Children's services are funded adequately, and that enough provision is made in the budget for 2019/20 and future years.

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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.

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.

In 2017/18 the Health, Care & Community services over-spent by £2.6million. This was mainly because £3.2million of planned efficiency savings were not achieved.

In 2018/19, Adult Services operated within budget. However, in 2019/20 it is forecast that the budget for younger adults with complex needs will overspend by £9.3million, the budget for older adults will over-spend by £2.5million and that £8.2million of savings in the People's directorate will not be achieved.

The management of the Adult Social Care budget has historically been characterised by serious budget pressures, overspending and the non-achievement of savings (with 2018/19 being an exception). Again, there appears to be a disconnect between the budget and reality.

It is 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).

There is a need to ensure that Adult social care services are funded adequately, and that enough provision is made in the budget for 2019/20 and future years. However, I note that the Council are proposing to make savings of £2.5million in adult social care in 2020/21 (see below). In view of the financial position of the service this may not be appropriate or achievable.

Economy and Infrastructure

While the Economy and Infrastructure Directorate has traditionally operated within budget, I note that it is projected that it will overspend by £2.2million in 2019/20, mainly because of an overspend in highways (home to school transport) of £1.5million. This may have implications for future budgets.

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 2017/18 the Resources & Transformation service under-spent by £1.2million and there was a further under-spend of £13.1million on other corporate items. The under-spend on other corporate items principally related to: Treasury management (£8.1million), under-use of the provision for inflation (£6.3million), and the public health reserve (£1.0million).

In 2018/19 the Finance Directorate under-spent by £4.5million (mainly on Treasury Management - £2.6million and insurance - £1.7million) and the Council under-spent on other corporate items by £8.3million (including £4.8million on inflation and contingencies). In 2019/20 it is forecast that the Finance Directorate will underspend by £2.2million (including £1.6million on Treasury Management) and the Council will under-spend on corporate items by £12.8million (including £7.2million on inflation).

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'. Again, there is a disconnect between budgets and reality with the same budgets being affected over a period of years. I note that there is a proposal to increase the Treasury Management budget by £1.6million in 2020/21 that appears to me to be a step in the right direction.

I think there may be a missed opportunity to allocate resources to front-line services. In my response to the budget consultation in January 2019 I suggested that central budgets should be reviewed to ensure that they are set at an appropriate level in future. I think there is still a need for this to be done.

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.

Efficiency and Savings

The planned 2017/18 savings target was £16.4million. A total of £12.8million (78%) was delivered by March 2018, giving a shortfall of £3.6million against this target. The savings that were not achieved were mainly (£3.2million) in the Health, Care & Communities service.

The planned 2018/19 savings target was £34.6million. A total of £31.3million (90%) was delivered by March 2019, giving a shortfall of £3.3million against this target. It is forecast that £8.2millon of savings in the People's Directorate will not be achieved in 2019/20.

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The Council has identified £9.5million of savings for 2020/21 and £8.2million of savings for 2021/22. However, while the Council has calculated that there will be a budget gap of £4.8million in 2022/23, £7.3million in 2023/24 and £7.2million in 2024/25; specific savings have yet to be identified.

The planned savings for 2020/21 include new savings of £5.6million of which £2.5millon are from working together, £2.4million from enterprise and efficiency and £0.8million from digital transformation. The planned savings from working together are in adult social care – especially Cumbria Care – and in view of the financial position of the adult care service outlined above, there must be some doubt that these will be realised.

In view of the Council's failure to achieve all planned savings in previous years there is probably a risk that planned savings in future may not be achieved; and that it may not be possible to identify enough savings in 2022/23 and subsequent years to deliver a balanced budget.

It was stated in the 2019/20 budget papers that a programme of service reviews will be planned on a rolling basis throughout the Council. However, this does not appear to be mentioned in the 2020/21 budget papers. I hope that this approach is continuing and would suggest that the methodology 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.

<u>Reserves</u>

General fund balances stood at £9.4million at 31st March 2017, £10.5million at 31st March 2018 and £15.1million at 31st March 2019; and there were also earmarked reserves of £62.8million at 31st March 2017, £65.5million at 31st March 2018 and £53.8million at 31st March 2019, giving the Council total reserves of £72.2million at 31st March 2017, £82.7million at 31st March 2018 and £68.9million at 31st March 2019. This is the equivalent of about four months of Council Tax revenue.

The earmarked reserves include: Revenue Grants reserve (£32.8million in 2018, £23.3million in 2019), Insurance reserve (£12.3million in 2018, £11.3million in 2019), Other services reserves (£7.3million in 2018, £4.3million in 2019), Modernisation reserve (£4.9million in 2018, £4.9million in 2019) and Directorates' reserves (£5.1million in 2018, £4.4million in 2019). It is not clear to me that all these reserves are intended for specific purposes and it may be that some are really general reserves that are potentially available to fund general fund expenditure. It may be worthwhile considering whether it would be appropriate to make further reductions in earmarked reserves in 2020/21.

The Chartered Institute of Public Finance & Accountancy suggests that Councils should maintain reserves at a level between 5% and 100% of their annual turnover and the Council's general fund reserves are currently within those parameters. However, one reason for holding reserves is to provide a contingency against unforeseen costs and risks and the Council does this by maintaining a provision for contingencies and inflation that is usually found to be more than enough (see above). It may be appropriate for the Council to consider whether its general fund reserves, plus available earmarked reserves plus the contingency for inflation and risks is actually more than sufficient.

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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. 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.

In 2017/18, capital expenditure was £137.5million compared with a capital budget of £161.6million. This variance was made up of £24.4million of 'slippage', £0.5million of accelerated spend and an underspend of £0.3million. The main areas of 'slippage' were: Children and families (£8.9million), Economy and highways (£8.8million), Health care and community (£3.8million), Resources & transformation (£1.3million) and Fire and Rescue (£1.3million).

In 2018/19, capital expenditure was £140.1million compared with a capital budget of £156.8million. This variance was made up of £19.2million of 'slippage', £2.6million of accelerated spend and an underspend of £0.1million. The main areas of 'slippage' were: Economy and Infrastructure (£6.3million); Accountable bodies (£3.9million); Corporate, Customer & Community (£3.8million); Children's services (£3.0million); Adults' services (£1.9million) and Fire & Rescue (£0.2million).

In 2019/20 a capital programme of £113.5million was agreed, but by the second quarter it had already been reduced to £105.2million mainly because £12.0million of 'slippage' had already taken place. The programme declines to £77.4million in 2020/21 and £36.1million in 2021/22.

Surveys of the Council's school buildings have established that investment of £10.7million a year is needed to maintain school buildings at a baseline acceptable standard. However, the school conditions allocation that is provided by the Department for Education to fund the maintenance of school buildings was only £4.8million in 2018/19.

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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. In 2017/18 it was funded by: Government Grants and contributions £114.3million; Prudential borrowing £19.1million; revenue contributions £1.4million and capital receipts £2.7million. In 2018/19 it was funded by: Government Grants and contributions £100.0million; Prudential borrowing £23.5million; capital receipts £6.9million and revenue contributions £2.4million.

The Council held £6.7million in capital reserves at 31st March 2019 being useable capital receipts. This compares with £12.5million in 2018 and £10.9million in 2017.

I think this raises the following issues:
- Project Management – Whether the Council's project management arrangements are effective in view of the under-spending and 'slippage' that occurred in 2015/16, 2016/17, 2017/18 and 2018/19.
- Sustainability – In view of the declining level of planned capital expenditure, and the fact that capital budgets for maintenance of school buildings are already recognised to be inadequate, does the Council have the resources to continue to maintain and provide necessary capital assets?
- Government Grants and Contributions –The programme is heavily dependent on this source of funding that 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 individual 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 were valued at £1.1billion in the 2016/17 accounts, £1.2billion in the 2017/18 accounts and £1.2billion in the 2018/19 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.

One Council whose budgets I studied recently as part of my work for the Local Government Association has used its risk analysis to assist in the calculation of the minimum level of balances that are required. For each risk it has estimated the cost that would fall on the Council if the risk were to materialise and the likelihood that this will occur to calculate the balances that are required to reflect that risk (for example if a risk would cost £1million if it happened and there was a 10% likelihood of it happening, £100,000 would be required in balances). These figures were all aggregated and added to 5% of annual turnover to calculate the minimum balance required. The Council may wish to consider this approach.

Treasury Management

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 currently just below 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 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.

Local Government Financial Settlement and Fair Funding Review

The implementation of the Fair Funding Review has been postponed but could significantly impact on the future financial assumptions. 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.

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. Of all these pressures the consistent inability to manage children's services within budget is probably the one that should cause the greatest concern.

The Local Government Association has demonstrated conclusively that central government has now reduced the resources of local authorities (through reducing grants and placing constraints on councils' ability to raise council tax) to a level where it will soon become impossible for them to provide essential services to vulnerable people or to provide statutory services. It is therefore important that the Council continues to work with the Local Government Association and other local authorities to persuade government to provide local authorities with enough funding.

It may also be appropriate for the Council to consider whether to argue for more fundamental changes to the local government finance system. For example, Council Tax is a regressive tax that bears more heavily on those with lowest incomes and effectively transfers resources from areas with low incomes and property values (such as Cumbria) to other areas. The Council may wish to develop a case for replacing Council Tax an Business Rates with alternative taxes such as local income or property taxes that would be fairer to residents and provide the Council with more resources and flexibility.

Council Tax

I support the Council's proposals to increase Council Tax in 2020/21 by 3.99% (1.99% for general needs plus 2% for adult social care) because of the need to provide enough funding for essential services, especially children's services and adult social care.

The Council has moral and legal obligations to care for the most vulnerable children and adults in our society and therefore has an obligation to consider how it can fund essential social services adequately. I would therefore 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 am obviously aware that there are many people in Cumbria with financial difficulties who already struggle to pay the Council Tax and other bills and who would not welcome an increase in Council Tax. I would therefore suggest that the Council considers, with the six district councils, how people with financial difficulties could be assisted in paying the additional Council Tax through more generous Council Tax Reduction schemes.

Devolution

Proposals for devolution to Cumbria have 'stalled'. This is unfortunate as it leaves Cumbria in an adverse position when compared to those authorities that have concluded devolution deals.

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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. I think this goes beyond the familiar arguments about local government reorganisation and unitary authorities.

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. The important thing is to secure not only devolution of responsibilities and budgets, but devolution of the power to take decisions.

Equalities Information

Please see the attached appendix.

Conclusions

My principal conclusions are as follows:

- The financial management of Children's services and Adult Social Care should be reviewed as it is likely that the potential for savings may have been exhausted. Realistic budgets should be set that are aligned with actual income and expenditure. There is a need to ensure that the Adult Social care services that the Council provides are funded adequately.
- It is possible that the Council's central budgets contain what accountants call 'padding', 'budget slack' or 'over budgeting'. Realistic budgets should be set that are aligned with actual income and expenditure. 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 2020/21 and subsequent years.
- It may be worthwhile considering whether it would be appropriate to make further reductions in earmarked reserves in 2020/21.
- Aspects of the Capital Programme that should be reviewed include project management, sustainability, government grants and other contributions, prudential borrowing, capital receipts and asset management.
- Aspects of Risk Management that should be considered include Treasury Management.
- The Council should increase Council Tax by 3.99% as proposed in the budget papers.
- 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, alongside considering with the district councils how to mitigate the effects on people with low incomes through Council Tax reduction schemes. I would vote in favour of such a proposal.
- It is 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 also propose more radical reform to Local Government finanve.
- 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.

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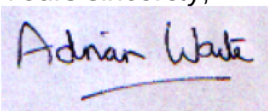
I hope that you find these observations useful. If you have any questions about any of the issues that I have raised I would be pleased to hear from you.

This letter is also copied to Councillor Thornton (Leader of the Liberal-Democrats and Cabinet member for Finance), Councillor Airey (Leader of the Conservatives) and Katherine Fairclough (Chief Executive).

Yours sincerely,



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