AWICS ***Independence…..Integrity…..Value***

Adrian Waite (Independent Consultancy Services) Limited

6th January 2019

Ms Katherine Fairclough,
Chief Executive,
Cumbria County Council,
Cumbria House,
107-117 Botchergate,
Carlisle,
Cumbria.
CA1 1RZ.

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

Dear Ms Fairclough,

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 Council Tax, should we:

a) Increase Council Tax by 1.99% to avoid having to make even more savings on top of the £22.730 million 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 £4m of savings would need to be identified across council services.

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.

It was reported that the over-spend in 2017/18 primarily related to Commissioning of places for Children Looked After pressure of £9.7million and the additional cost of externally provided workforce of £1.4million. This budget continues to be a significant budget pressure for the Council that is consistent with the national situation as councils face rising costs of Children Looked After due to a National shortage of foster placements and in some cases leading to uptake of residential packages. New entrants have been older teenagers with complex high needs behaviours making them difficult to match with foster carers.

Following the OFSTED inspection outcome, the Council has introduced a Children Looked After Recovery Plan. However, in 2018/19 it is forecast that Children's services will overspend by £10.4million when compared with the revised estimate. Of this over-spend, £9.6million is expected in the Children Looked after service.

I understand that the forecast outturn being greater than budget is due to a combination of both the increased numbers of Children Looked After and the increased average cost per placement. However, since the first quarter the principal driver of the increase in budget forecast is the result of the new entrants requiring care in placement settings more expensive than those children exiting care, reflecting the complexity of care needs and the sufficiency of available placements.

I also understand that the forecast outturn continues to assume delivery of the £0.7million reduction to expenditure associated with the Children's element of Promoting Independence.

The draft budget for 2019/20 includes 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 includes 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.

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 enough; and whether the current approach to setting, managing and monitoring budgets and savings is appropriate.

It appears to me that it is likely that the potential for savings in Children's services may have been exhausted and that the financial management of Children's services should be reviewed. 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.

I note that the draft budget contains savings in adult social care including £15.4million in promoting independence for adults. In view of recent experience, I expect there is a risk that these savings may not be achieved. In practice, it may be that the potential for savings has already been exhausted.

The management of the Adult Social Care budget has historically been characterised by serious budget pressures, overspending and the non-achievement of savings. It is reported that a further over-spend is currently not forecast in 2018/19 although I would imagine that there remains a risk that savings planned for 2018/19 may not be achieved.

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.

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).

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.

Efficiency 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 Council's proposed savings for 2019/20 and subsequent years are as follows:

Themed saving proposals	2019/20	2020/21	2021/22
	£million	£million	£million
Revised Budget Gap	22.730	58.528	66.545
New Programmes			
Enterprise and Efficiency	3.349	3.196	3.381
Working Together	0.515	1.830	1.830
Existing Programmes			
Enterprise and Efficiency	1.250	1.150	1.050
Working Together	17.616	20.386	20.386
Revised Budget Gap	0.000	31.966	39.898

The Council has identified savings to meet the calculated budget gap in 2019/20 but has yet to identify the savings that are likely to be required in future years. In view of the Council's failure to achieve all planned savings in 2017/18 there is probably a risk that planned savings in 2018/19 and 2019/20 may not be achieved; and that it may not be possible to identify enough savings in 2020/21 and subsequent years to deliver a balanced budget.

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 £10.5million at 31st March 2018; and there were also earmarked reserves of £62.8million at 31st March 2017 and £65.5million at 31st March 2018, giving the Council total reserves of £72.2million at 31st March 2017 and £82.7million at 31st March 2018. This is the equivalent of about four months of Council Tax revenue.

The earmarked reserves include: Revenue Grants reserve (£32.8million), Insurance reserve (£12.3million), Other services reserves (£7.3million), Modernisation reserve (£4.9million) and Directorates' reserves (£4.4million). 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 2019/20.

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 position 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).

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.

The Council held £12.5million in capital reserves at 31st March 2018 being useable capital receipts. This compares with £10.9million 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, 2016/17 and 2017/18.

- 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 and £1.2billion in the 2017/18 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 Treasury Management (see below) and the implications of Britain leaving the European Union.

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 already above 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.

<u>Local Government Financial Settlement and Fair Funding Review</u>

The Fair Funding Review 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. The budget gap that has been calculated is £22.7million in 2019/20, £58.5million in 2020/21 and £66.5million in 2021/22. The savings included in the budget are calculated to meet the projected shortfall in 2019/20 but still leave a budget gap of £32.0million in 2020/21 and £39.9million in 2021/22. 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.

Council Tax

I support the Council's proposals to increase Council Tax in 2019/20 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.

However, I think that the Council should take advantage of the opportunity to increase Council Tax by 3% rather than 1.99% without holding a referendum.

If the Council persists with its proposal to increase Council Tax by only 1.99% rather than 3% it will not only deny itself the resources that this would generate in 2019/20 but will also depress its future income for evermore because limits on future levels of Council Tax are set with reference to previous levels of Council Tax. I think that a responsible Council would consider its obligations to its vulnerable citizens and would raise Council Tax to the level that is necessary to maintain adequate Children's and adult social care services.

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.

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.

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.

Equalities Information

Please see the attached appendix.

Conclusions

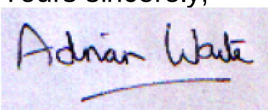
My principal conclusions are as follows:

- 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 funded adequately.
- 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 funded adequately.

- 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 2019/20 and subsequent 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.
- It may be worthwhile considering whether it would be appropriate to make further reductions in earmarked reserves in 2019/20.
- 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 Treasury Management.
- The Council should take advantage of the opportunity to increase Council Tax by 3% rather than 1.99% 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.
- 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 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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