



Adrian Waite (Independent Consultancy Services) Limited

16th January 2015

Cllr Gordon Nicolson OBE,
Leader,
Eden District Council,
Town Hall,
Penrith,
Cumbria.
CA11 7QF.

cc. Mr. Robin Hooper, Chief Executive.

By email.

Dear Councillor. Nicolson,

Budget Consultation 2015

I write in response to your public consultation on the 2015/16 budget for Eden District Council.

As you know I am a resident of Appleby, Managing Director of 'AWICS' and Chair of Impact Housing Association. However, this letter is written in my personal capacity.

My observations on your draft budget are as follows:

Revenue Reserves

I have always been surprised at the high level of revenue reserves that are maintained by the Council. I obviously understand that it is prudent to maintain an adequate level of reserves but there is a difference between an adequate and prudent level and an excessive level. In the draft budget reserves are projected to stand at £4.6million at 31st March 2016. That would represent fifteen months of Council Tax revenue. In effect every penny of Council Tax that residents will pay from January 2015 to March 2016 would, at the end of March 2016, remain unspent in the bank!

If I understand the draft budget papers correctly the estimated deficit for 2015/16 of £749,000 arises solely because of non-recurring expenditure and revenue contributions to capital outlay (£714,000) and the cost of the District Council elections (£73,000). There is therefore not a structural deficit and the deficit in fact represents the Council spending its excess reserves. I think this is the correct approach.

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However, the estimated reserves even in the medium-term still appear to be high. The view is expressed in the draft budget report that reserves should be maintained at between £1.5million and £2.0million – equivalent to about a quarter of the annual spend. However, the medium term financial projection shows that reserves will still be at £3.8million in March 2019 (equivalent to a year's Council Tax revenue) There does not appear to be a need to maintain a high level of reserves to maintain cash balances as I note that the Council's average cash balance is estimated at £14.6million. Another reason for holding a high level of reserves could be to guard against unforeseen overspending. The draft budget report quotes the external auditor as saying that 'the General Fund and earmarked reserves are appropriate given the risks' which would lead me to conclude that the risks must be considerable. However, I would hope that the Council's budget monitoring processes would be sufficiently good to avoid an overspend of up to £3.8million on a £7.6million budget!

The budget report states that the uncertainty surrounding the budget for footway lighting is 'one of the reasons for maintaining high levels of reserves'. I am not sure that this justifies maintaining £3.8million in reserves, but if this is the case I would suggest that resolving the issues surrounding the budget for footway lighting should be a priority.

It appears to me that an opportunity exists to bring forward capital or non-recurring schemes to improve the infrastructure of the district and / or to 'invest to save' that may be being missed in the draft budget as it is currently being presented.

It is a minor point, but the Council could consider making a provision for future election costs in years where there are no District Council elections so as to 'smooth' the costs between years.

Council Tax

In view of the need for the Council to maintain important services in the district I would support the proposal to increase Council Tax by 2%.

'Over Budgeting'

If I understand what is meant by 'over-budgeting' correctly I find this rather disturbing. My understanding of the situation is that, because some of the Council's budgets are excessive they are likely to be underspent (accountants sometimes call this 'budget slack') and so the Council has decided to count on an underspending of £150,000 occurring each year. The draft budget report describes it as follows:

"Based on previous years, there is a tendency for a degree of under spend. This is a function of having a large number of budgets, some of which are not always fully used due to circumstances. Such a provision has been included in the last few years. The proposed level of £150,000 was used for 2013/14 and was borne out by the outturn, as reported to the Executive on 1 July 2014."

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This does not appear to me to represent good practice. There are two reasons for this: Firstly, if managers have budgets that are excessive there is little incentive for them to exercise effective budgetary control; and secondly, if the estimated 'underspend' does not materialise the Council will 'overspend'. Most accountants would say that it would be good practice to identify the excessive budgets and reduce them to a reasonable level rather than indulging in 'over budgeting'. I wonder if this approach to budgeting is linked with the policy of managing risk by having high levels of reserves!

The Chartered Institute of Public Finance & Accountancy, in its workbook for students of Management accounting considers 'budget slack' as a problem and defines it as follows:

"Carrying forward past inefficiencies to future periods within the budget is one reason for the existence of budgetary slack. Budgetary slack refers to areas of the budget where the value of the budget is more than is really required for delivery of the budget."

I would suggest that the Council consider changing its approach to this matter.

Value for Money and Staffing Costs

I assume that the Council has a Value for Money strategy but I am surprised that it receives very little mention in the draft budget. Indeed, the table in paragraph 9.2 that reconciles the draft budget with the previous year shows a number of budget variations but there appear to be no efficiency gains included. As long ago as 2004 the Cabinet Office commissioned Sir Peter Gershon to consider Value for Money in the public sector and he concluded that it would be appropriate for local authorities to make efficiency gains of at least 2% a year. I know that the 'Gershon' regime has come to an end, but since then pressure to reduce budgets has intensified. In the case of Eden District Council a 2% efficiency gain would equate to an annual efficiency saving of about £150,000 but I can find no reference to this in the draft budget.

The draft budget does say that 'an underlying deficit arises in the following years mainly due to the assumed ongoing cuts in revenue support grant'. If efficiency gains of £150,000 a year were made this should help to prevent this deficit from arising.

This paragraph of the draft budget refers to the Job Evaluation scheme having a net cost of £120,000. I find this surprising as I had understood that job evaluation schemes can be introduced on the basis that they are cost neutral in the medium-term.

The draft budget report refers to performance payments for council officers related to performance targets. The draft budget says that 'the figure shown assumes that all the targets are met, leading to all the bonus being payable'. However, the draft budget report does not identify any targets that are related to making efficiency gains in the budget. Are we to assume that none of the targets relate to making efficiency gains? If some of them do, it is not apparent where these efficiency gains appear in the budget.

One approach that the Council could take to controlling staffing costs would be to establish a 'staffing costs budget envelope' that would be increased in proportion to no more than increases in the Council's total income and that would represent a maximum that could be spent on employee related expenses including salaries & wages, national insurance, pension contributions, bonuses and other staff related costs.

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Central Services

My perception may be incorrect, but it appears to me that when the District Council needs to reduce expenditure it tends to reduce budgets for direct services and maintain budgets for central services. This appears to be happening in the draft budget for 2015/16. For example:

- From 2014/15 to 2015/16 expenditure on all portfolios' net requirements reduces by £132,000 (1.5%) while expenditure on the Leader's and Resources portfolios increases by £102,000 (5.1%).
- Corporate costs increase from actual expenditure in 2013/14 to budgeted expenditure in 2015/16 by £183,000 (21%)
- Similarly, budgets for legal and committee services, property and contracts, central expenses and administrative buildings all increase from 2013/14 to 2015/16.
- In contrast budgets for tourist information centres and town centres are reducing despite the Council's commitment to economic development (see below).

Penrith Town Council

Following the creation of Penrith Town Council I was expecting to see the budget showing the transfer of responsibility for some budgets from the District Council to the Town Council. However, this does not appear to be in the draft budget. If Penrith Town Council is not going to take over responsibility for some of the public expenditure in the town this raises the question of what its role will be.

Appleby Fair

The budget for Appleby Fair appears to be increasing each year. Has the Council ever done an appraisal to compare the costs of the Appleby Fair to the district with the benefits that it brings?

Capital Programme and Prudential Borrowing

The summary capital programme shows the Council's investment in the district declining from £2.3million in the current year to NIL in 2018/19. I would suggest that the Council should consider what options exist for sustaining the capital programme into the future. For example, there is no provision for the affordable housing fund after 2015/16.

The draft budget does not propose to make any use of the prudential borrowing powers that the Council has enjoyed under the 2003 Local Government Act ever since 2004/05. Instead the draft report states that 'it is **assumed** that no borrowing will be undertaken... as the Council currently has sufficient capital resources to fund the current capital programme'. This appears to me to be a circular argument: If the capital programme is based on what can be afforded without borrowing it follows that borrowing will not be required to fund it. However, the Council has identified important objectives not least in economic development and housing (see below) that require capital resources to be committed. I therefore feel that the Council may be missing an opportunity by not even considering the use of its borrowing powers.

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The draft report continues: 'When these resources are full exhausted... a detailed business case will have to be undertaken to identify if borrowing can be justified within the framework of the prudential code'. However, I would suggest that the Council should review its borrowing policy annually to ensure that it considers its finances and its capital programme in a comprehensive way. Indeed, it is my understanding that The Chartered Institute of Public Finance and Accountancy's code of practice on treasury management and the Prudential Code require local authorities to determine a treasury management strategy statement and set prudential indicators, on an annual basis. All local authorities with which I am familiar do this.

As outlined above, I also think there is potential to increase the size of the capital programme by using reserves to fund revenue contributions to capital outlay. It is also concerning that the Council is proposing to leave £369,000 of the resources that it has identified to support the capital programme unspent in 2015/16.

I note that one of the capital schemes is £806,000 for the relocation of the London Road depot. As the depot is used by the Council's contractor and not by the Council, I wonder why it is not possible for the contractor either to meet these costs or continue to use the existing depot thus freeing up £806,000 of public money to support other higher priority schemes.

Economic Development

I think that the Council has correctly identified economic development as a major priority. While the district enjoys low levels of unemployment, much of the employment that is available is part-time, seasonal, low wage and / or insecure. There is a need to build an environment in which more secure high-value businesses will develop.

I am therefore unconvinced that the current policy of offering revenue support to struggling businesses (for example through the business loans fund) is the best approach. An alternative approach would be to focus resources more on improving the economic infrastructure of the district through capital investment in housing, business sites and infrastructure.

Housing

I think that the Council has correctly identified affordable housing as a major priority. I am therefore pleased to see that the draft budget proposes using increased income from the New Homes Bonus to increase the Affordable Housing Fund. However, I expect that this increased funding would not be sufficient to meet the need for additional affordable housing that has been identified in the district. I would therefore suggest that the Council consider making further increases in the affordable housing budget funded by additional resources and economies that I refer to above.

I note that there is no budget or discretionary housing payments in 2015/16. In view of increasing poverty and hardship and the introduction of Universal Credit I would have thought that it would be appropriate to have a significant budget for discretionary housing payments.

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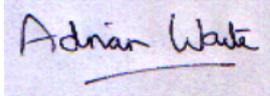
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Risk Management

The draft budget report includes a paragraph on 'risk management implications' but does not include a risk matrix that identifies the major risks, their potential impact, their likelihood and the Council's contingency plans and plans for mitigation. This matrix may exist elsewhere but I would have expected to see it included in the draft budget report.

I hope that you find these observations helpful.

Yours sincerely,

A handwritten signature in blue ink that reads "Adrian Waite". The signature is written in a cursive style and is underlined with a single horizontal line.

Adrian Waite
Managing Director

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