

REVENUE BUDGET
2007-08

REVENUE BUDGET COMMENTARY

The following is the text of the revenue budget report from the Deputy Chief Executive – Director of Finance & Central Services to the County Council on 15th February 2007. The budget was agreed as set out in that report. The tables later in the booklet are based on the budgets reported to that meeting, but also reflect adjustments including allocation of target savings to individual services and updates for later announcement of specific grants.

REVENUE BUDGET, COUNTY PRECEPT AND COUNCIL TAX 2007/8

SECTION A: RECOMMENDATION OF CABINET MEMBER

1.0 EXECUTIVE SUMMARY

1.1 *The purpose of this report is to present the recommended budget covering*

- * *the Revenue Budget expected results for 2006/2007***
- * *the recommended Revenue Budget for 2007/08 and provisional Revenue Budget for 2008/9 and 2009/10***
- * *the use of (or addition to) general reserves and earmarked reserves in 2007/8***
- * *the precept on District Councils in 2007/08***
- * *the levels of the County Council's share of council tax in 2007/08 for the eight property bands.***

1.2 *The report incorporates some later figures, compared with the draft Budget considered by Cabinet on 28 November 2006, including final council tax data from the District Councils and the final Revenue Support Grant Settlement. The outcomes of public consultation and of Budget Scrutiny are also included in the report.*

1.3 *The Themed Budgets and service-by-service components of the Budget appear in the attached tables from the Directorates. The County Council's overall budget increases by £14.7m. (5.2%) from £284.4m. to £299.1m. The figures lead to a Band D Council Tax of £1,070.30 (an extra 4.99%) i.e. the same as the draft figure put forward by Cabinet on 28 November 2006.*

2.0 POLICY POSITION AND BUDGETARY AND EQUALITY IMPLICATIONS AND LINKS TO THE CORPORATE STRATEGY

2.1 The County Council's Budget is a key part of the policy framework for the County Council and links directly with the Council Plan and individual service plans. The presentation of the Budget for 2007/8 corresponds to the six Themes in the Council Plan.

2.2 The inputs to the budget process from the scrutiny function and from public consultation appear in the report. Proposals are again made for the use of additional council tax income from second home owners.

3.0 RECOMMENDATIONS

Items for decision by County Council:

3.1 2006/2007 Revenue Budget

To note the expected results for 2006/2007 of £ 284.402m. (after allowing for contributions to / from corporate balances and from earmarked reserves).

3.2 2007/2008 Budget, Precept and Council Tax

i) To agree the 2007/8 budget, including the budget requirement of £299.110 m.

ii) To retain general balances and reserves of £6.619 m. at 31 March 2008.

iii) To set a County Council precept of £186.978m. to be precepted on the District Councils as follows:-

	£
Allerdale	33,918,561
Barrow	22,877,259
Carlisle	36,275,869
Copeland	23,699,273
Eden	21,706,274
South Lakeland	48,500,764

186,978,000

iv) To set the overall amounts of Council Tax for County Council Services at the following levels for each property band:-

	£
<i>Band A (up to £40,000)</i>	<i>713.53</i>
<i>Band B (£40,001 to £52,000)</i>	<i>832.46</i>
<i>Band C (£52,001 to £68,000)</i>	<i>951.38</i>
<i>Band D (£68,001 to £88,000)</i>	<i>1,070.30</i>
<i>Band E (£88,001 to £120,000)</i>	<i>1,308.14</i>
<i>Band F (£120,001 to £160,000)</i>	<i>1,545.99</i>
<i>Band G (£160,001 to £320,000)</i>	<i>1,783.83</i>
<i>Band H (£320,001 and over)</i>	<i>2,140.60</i>

3.3 Prudential Guidelines

That the prudential guidelines for 2007-2010 as set out in the schedule attached be approved.

J. E. Stocker
Deputy Leader

SECTION B: ADVICE OF DEPUTY CHIEF EXECUTIVE / CORPORATE DIRECTOR – FINANCE AND CENTRAL SERVICES

BACKGROUND

4.0 REVENUE BUDGET, COUNTY PRECEPT AND COUNCIL TAX 2007/08

Revenue Support Grant Settlement

- 4.1 The Revenue Support Grant Settlement announced in December 2005 was different from previous settlements for three reasons:
- funding for schools was taken out of the equation with a separate Dedicated Schools Grant of £247m. in 2006/7; the Council's budget requirement reduced from £503m. in 2005/6 to £284m. in 2006/7
 - abolition of Formula Spending Shares (FSS); instead we are given a grant figure without being able to calculate its component parts
 - there was a two year settlement covering years 2006/7 and 2007/8 so we knew, with some certainty, what our grant settlement would for 2007/8 (£111.2m., a rise of 5.4%, 7th highest of the 34 English Counties); in fact, the figure is

unchanged a year on, as confirmed in the final RSG Settlement for 2007/8.

- 4.2 Attached is a chart showing the key changes and figures for the 2 year settlement. What is significant, following from the separate funding of schools, is an increased reliance on council tax funding to cover most of our budget.

	2005/6		2006/7		2007/8	
	£m	%	£m	%	£m	%
Budget	503	100	284	100	299	100
financed by:						
Revenue	334	66	106	37	111	37
Support Grant / Business Rates						
Council Tax	169	34	178	63	188	63

GRANT SYSTEM FOR 2005/6 (£ millions)

Before Schools Change

SPEND	FINANCE
503	GOVT. GRANTS / BUSINESS RATES 334
	COUNCIL TAX 169

After Schools Change

SPEND	FINANCE
271	GOVT. 102
	COUNCIL TAX 169

GRANT SYSTEM FOR 2006/7

SPEND	GRANT 106
	COUNCIL TAX

New grant system

No assumed levels of
spending or council tax

3.5% increase

GRANT SYSTEM FOR 2007/8

SPEND	GRANT 111
	COUNCIL TAX

5.4% increase

- 4.3 Council tax capping is here to stay. For 2006/7 budgets, council tax increases of around 5% were the realistic limit. The Local Government Minister has made similar comments about council tax rises for 2007/8, so this budget takes us to the realistic limit of council tax. Council tax increases for English Shire Counties for 2007/8 are generally expected to be in the range from 4 to 5%. As a reminder, if the Secretary of State thinks an authority's budget requirement is excessive, he / she can
- (1) designate the authority in-year ie require the authority to reduce its budget and council tax
 - (2) designate the authority for the following year
 - (3) set a 'notional' budget requirement for the current year to be used in future years' comparisons (i.e. use a lower starting point than the actual budget)
 - (4) designate the authority over a number of years, starting in-year or the following year.
- 4.4 Because of the changes to the Revenue Support Grant system in 2006/7 (including 'floors' to protect those who would have lost unduly and 'damping' to offset the gains of others such as Cumbria) it can no longer be said that the RSG system provides adequate (in some cases, any) funding to cover debt charges on approved capital programmes. This is prompting local authorities to question if they can afford capital investment.
- 4.5 We have no figures from Government for 2008/9 and beyond. Those will appear later in 2007. The Comprehensive Spending Review 2007 will lead to a 3 year Revenue Support Grant Settlement covering the years 2008/9, 2009/10 and 2010/11. It will be helpful to have figures for three years ahead. The main issue will be how generous or tough those figures will be. All the indications point to a reduced level of public sector growth in the future. 'Cashable' efficiency savings (i.e. those which lead to a reduction in spending) will be expected to make a large contribution to any funding gap. In the Chancellor's Pre- Budget Report of 6 December 2006, he referred to efficiency targets from 2008 onwards of at least 3% per annum.
- 4.6 The economic context sees inflation and interest rates gradually rising. Annual inflation, measured by the Index of Retail Prices, was 2.2% a year ago. For the year to December 2006 it had doubled to 4.4% (the alternative measure of the Consumer Price Index also having risen to 3.0%). Short-term interest savings have now reached 5.25%. These factors will put pressure on the annual round of pay settlements.

Budget Strategy

- 4.7 The broad parameters for the 2007/8 Revenue Budget were set in February 2006, as part of the medium term financial plan i.e. a spending limit of £299m. consistent with a headline council tax increase of 5%. The budget increase of over £14m. would have covered £7.4m. of inflation (up to 2.9% on most budgets) and £7.2m. of spending pressures. The proposals in this report continue with the same council tax and an updated spending figure.

	2006/7	2007/8	Increase over 2006/7	
	£000	£000	£000	%
Revenue Budget	284,402	299,110	14,708	5.2
Financed by:				
Government Grants / Business Rates	105,858	111,186	5,328	5.0 *
Council Tax call	178,544	187,924	9,380	5.3
	<u>284,402</u>	<u>299,110</u>	<u>14,708</u>	<u>5.2</u>

* 5.4% increase after adjusting for changes of financing and function between the two years

- 4.8 The details within the strategy were changed as a result of the Employment Tribunal's judgement of March 2006 and possible equal pay arrears of the order of £50m. The financing strategy for Equal Pay was adopted by Cabinet and County Council at their June 2006 meetings. We have put aside £15m. and need to find more. Even with assumptions about borrowing to cover some of the arrears the costs of equal pay and other pressures (such as single status) required annual budget savings of £10m. to be found (see attached diagram).
- 4.9 Service Reviews were launched, following the 18 July 2006 Cabinet Meeting, with a progress report to Cabinet on 5 September 2006. These were designed to contribute to the £10m per annum savings we are seeking. On 5 September, Cabinet amended the budget guidelines to reflect progress made by

	£m
• taking account of Service Review proposals to date totalling	4.0
• to limit the inflation allowance from 2.9% to 2.0% saving	2.2
• to seek further savings from Service Reviews of	1.9
• to challenge the sums included for the budget pressures with the aim of finding a further	1.9
	<u>10.0</u>

- 4.10 Six Themed Workshops were held in October 2006, attended by Cabinet members, Scrutiny members, Corporate Directors and their staff, and scrutiny officers. The workshops highlighted the options being examined in the Service Reviews and the pressures being faced by the Themes. The workshops consolidated the work reported to Cabinet at its 5 September meeting but did not achieve their other objective of closing the gap between spending plans/ aspirations and the levels of available resources. Further work took place up to the 28 November 2006 Cabinet meeting but there was still a gap of nearly £2.4m. still to be found for 2007/8.

Equal Pay Arrears

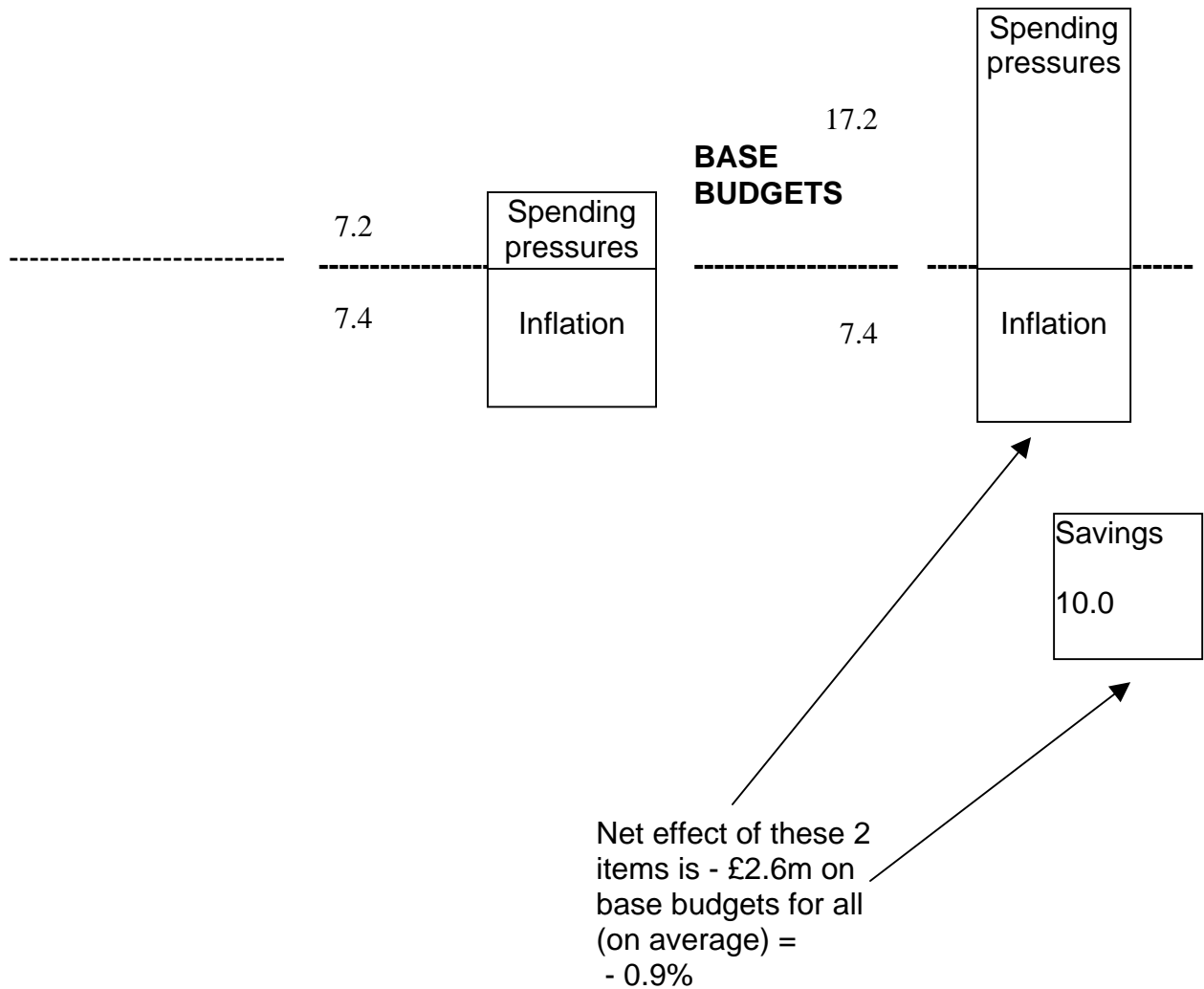
- 4.11 We have made representations to Government about costs of equal pay arrears. The responses indicate little or no prospect of grant payments towards these costs (which are becoming more of a national problem). There is more support from Government towards being able (exceptionally) to treat the arrears as capital spending and then borrow to cover some of the costs.
- 4.12 The only drawback here is that borrowing, for purposes which do not create assets, falls foul of HM Treasury rules. At present, borrowing approvals for these 'capitalisation directions' are limited to £200m. per annum nationally. Of this sum, £30m. has been earmarked nationally for equal pay claims – a sum scarcely adequate to cover Cumbria's needs. The LGA is making representations about increased flexibility in future years. We have made further representations about this as part of the response to the draft RSG settlement for 2007/8. We can only invoke our application for borrowing approval when we are certain about the overall costs – the deadline is December 2006 for any bid for 2006/7 borrowing approval, so we are intending to apply for 2007/8 borrowing approval, assuming that the outcome of the equal pay claims is clear by December 2007.

Single Status

- 4.13 At the same time as dealing with equal pay arrears we have to implement single status for future pay. Future single status arrangements have still to be finalised. Work is continuing on the individual job evaluations, on the setting of a pay line and on the arrangements for pay protection. Beyond the general allowance of £10m. for equal pay arrears and other pressures (subsequently reduced to £9m.), no allowance has been made in the draft Revenue Budget for any extra pay costs arising from single status. Many local authorities have found that there has been a net extra cost – either in terms of fixing the 'payline' or in giving salary protection. However, further costs are anticipated during 2007/8 of up to £608k to deal with the consequences of implementation, such as appeals, and schools job evaluations. It is assumed, for now, that any such costs will be financed from the sum of £15m. previously set aside for equal pay arrears. The outcome of the single status deal is particularly relevant to the prospects of the Client Services Directorate's Premises Unit and of

Cumbria Care. The higher the settlement costs, the more difficult will be these Units' prospects and the greater the risk of deficits and / or redundancy costs. On 30 January 2007, Cabinet resolved that implementation of Single Status would not take place before 2008/09.

	February 2006 Forecast	Now
<u>Council Tax Rise</u>	5%	5%
Budget level 2007/08	£299m	£299m
= increase in spending of	£14.6m	£14.6m
to be used for		



Revenue Budget Proposals

- 4.14 The draft Revenue Budget attached for 2007/8 and beyond are the product of the early forecasts put to Council in February 2006, the Service Reviews, and further work during and following the Budget Workshops. Whenever possible, efficiencies, procurement savings, financing devices and improved ways of working have been found. The Council's efficiency returns to Government have demonstrated that targets for the first two years have been exceeded. But savings of the order of £10m. per annum cannot be achieved by efficiencies alone. There are real impacts on services and service users. And there is still more work to be done on the later years budgets, where the prospect of extra costs, such as waste disposal, calls for more savings elsewhere in the budget. These have not yet been identified so work will continue on this from February 2007 onwards.
- 4.15 The Council Plan, with its links to the Local Area Agreement and the Sustainable Cumbria Strategy of the Cumbria Strategic Partnership, has informed the ordering of priorities in a difficult budget round.
- 4.16 The schedules attached set out the recommended budgets in detail. Some key points from the detailed tables include:

General:

As a contribution to budget savings, an allowance of 2% for inflation is being made. Pay and prices are rising by 3% in many areas (more for fuel related costs) so 'good housekeeping' is expected across the Council to contribute to savings.

Theme A – Improving (Details on page 34)

- Provides for financing costs of currently approved capital programme, including prudential borrowing for corporate programme.
- Cost pressures from utilities (property budgets).
- Additional estimated income from Local Authority Business Growth Incentives - actual grant is not known until February of the financial year (£860k bonus assumed for 2006/7 and £1292k for later years but this does depend on the distribution nationally of increases in rateable values).
- Net cashable savings from FIMS replacement project from 2008/9 onwards
- Procurement savings £1.6m in 2007/08 and £2.6m in 2008/09
- Assumes County Council share of 2nd home council tax income can be negotiated from 2009/10
- 1% 'topslice' from most budget headings
- Debt rescheduling exercise (see separate Treasury Management report).

Theme B – Prosperity (Details on page 37)

- Utilities inflation (mainly libraries)
- Forecast income loss from audio visual rentals
- Improved trading position at Port of Workington
- Regeneration - savings on regeneration grants, Community Regeneration Fund and Made in Cumbria.
- Cultural services – includes reduced hours at some libraries, reduction in cultural grants
- Rural Bus Subsidy Grant assumed to be replaced by equivalent support

Theme C – Adults (Details on page 39)

- Provision for 3-year demographic projections in Older Adults, Learning Disability and Physical Disability.
- Efficiencies from Cumbria Care, whilst removing the trading status of Cumbria Care – a net cost of £0.1m. is assumed for Cumbria Care in 2007/8
- 4% increase in independent sector homecare rates.
- Ceasing the equivalency policy for residential care
- Increase in the proportion of people supported at home.
- Increase in Meals on Wheels charges.
- Introduce day care charging at £5 per session.
- 5% increase in Homecare charges to £11 per hour.
- Use of grant provisions - available in 2007/08 only.
- Non-contracted budgets contained within 2% increase.

Theme D – Children (Details on page 41)

- Continued development of preventative agenda and integrated services
- Cost and demand pressures on transport budgets
- Reduce grants to sports organisations £40k per annum
- Cease clothing grants
- Transport savings years 2 and 3 requiring policy changes
- Significant savings assumed by limiting general increase to 2%
- The separate Dedicated Schools Grant settlement sees an increase from the 2006/7 Final of £246.4m. to the 2007/8 Latest of £258.4m. ie a cash rise of £12.0m. (4.8%) or 6.5% extra per pupil

Theme E – Safety (Details on page 44)

- Replaces £1m funded one-off in 2006/7 from pensions reserves
- Inflation on utilities costs
- Provision for financing costs of replacement vehicles
- Provision for retained fire-fighters pensions (reduced provision in 2007/08). Take-up uncertain.

- Savings from Integrated Risk Management Plan, net of reinvestment.

Theme F – Environment (Details on page 46)

- Inflationary costs linked to Baxter indices on waste and highways – assumes reductions can be negotiated. Also increases in landfill tax.
- Highways maintenance budget broadly maintained in real terms (but does not maintain current condition which would require an extra £4m. per annum, and a further £4m. to reflect BVPI targets).
- Winter maintenance budget funded based on 5-year average.
- Provision for CNDR Junction 44 (but not for CNDR itself)
- Waste budget based on overall waste volumes as per Local Area Agreement stretch target of 3% reduction, increased levels of recycling, and avoidance of LATS fines.
- Some improvements to support increased recycling.
- Strategic waste partner
- The retained share of council tax proceeds from second homes will continue to be used for highway maintenance (£1.549m.).

Later Years Budgets (Details on page)

4.17 Forecasts for later years (2008/9 and 2009/10) depend on assumptions about Revenue Support Grant Settlements, the outcomes of the Comprehensive Spending Review 2007 and our own spending plans and pressures.

4.18 As things stand, there is a large gap to be made up in both years, because current spending plans exceed anticipated resources:

	2008/9 £m.	2009/10 £m.
Budget guideline	312.2	326.0
Spending plans	315.8	330.7
Savings required	<u>3.6</u>	<u>4.7</u>

Rising costs of waste disposal, as set out in the report to County Council in November 2006 contribute to the extra costs. However, the gaps here have already fallen sharply from the £7.9m. (2008/9) and £11.0m. (2009/10) identified in November 2006.

4.19 It is inevitable that further rounds of savings and budget options will be needed for future years' budgets. Budget planning is now a year round, continuous exercise. The scale of these future saving requirements encourages as much advance planning and implementation as possible. Major budget decisions do not have to be stored up until February each year.

Other Budget Issues

4.20 The draft Revenue Budget also incorporates

- The latest Budget Monitoring reports for 2006/7. The most recent report up to December 2006 indicates a net underspend of £0.6m. Extra costs in Adult Social Care (£0.3m.) have been countered by increased interest receipts (£1.5m.). Estimated higher winter maintenance costs are covered by savings elsewhere in Client Services. National forecasts of the additional income from the Local Authority Business Growth Incentive Scheme now suggest £1.3m. for Cumbria but this is not yet certain and is not included in the net underspend of £0.6m. It is being treated as a bonus, to be used for the costs of change emerging from this budget round. Also, at recent meetings, the Corporate Planning Cabinet Working Group has considered a request from the Adult Social Care Directorate for a virement of £500k in 2006/7 from Older Adult Services to Cumbria Care, which is incorporated in this budget report (see separate agenda item).

Obviously there are many assumptions made here about the outturn for 2006/2007 and final decisions will be made by County Council about carry forwards, when the final accounts are considered at the June 2007 County Council meeting. The system of cash limits has encouraged Departments to plan ahead and make use of savings in one year to help the following year's budget. But it has meant that opportunities to bolster the County Council's general reserves and balances have been much reduced. When these opportunities arise, they need to be taken to leave enough in hand to deal with both the unforeseen and the known problems, such as equal pay arrears. For the moment, the budget has been presented on the general basis that underspendings and overspendings are taken to general reserves (rather than being taken to earmarked reserves for individual services) but this will obviously be reviewed during closure of the accounts.

- Local Public Service Agreement (LPSA) final outcomes for the 2003-2006 programme. Claims have been made for Reward Grant of £5,729k. If received in full, £2,222k has been committed to partners and £3,507k is for the County Council's determination (£1m. of the £3,507k has already been committed to support the 2006/7 and 2007/8 Revenue Budgets. The remainder is available for revenue and capital purposes - £267k and £2240k respectively, both incorporated in the recommended budget).
- The County Council's proposal for a Unitary Authority for Cumbria will be considered by Government in the remainder of 2007; if invited to proceed further, the County Council will need dedicated resource to undertake this work – for now, a sum of £300k is assumed. It is also assumed that the anticipated proceeds (£2m estimated) from the sale of the County Council's 5% shareholding in Kingmoor Park Properties Ltd. will be set aside either for

transitional costs of any local government restructuring or for equal pay arrears.

- A significant accounting and budgeting change is likely to be implemented in 2006/7 and later years, following the report of the Audit Commission on the 2005/6 Accounts to the Audit Committee's meeting on 28 September 2006. The Audit Commission argued that part of the proceeds of the Amey deal for 'goodwill' should not be taken as income for the Revenue Budget but as deferred capital receipts for the benefit of the Capital Programme. This has required a transfer of £0.6m. income out of the Revenue Budget (financed by reducing the £10m. for equal pay costs etc. to £9.4m.)
- No provision has been made in the draft Revenue Budget for the costs of any ICT developments beyond the funding already agreed for ICT projects over the 7 years of the Agilisys deal. In response to external inspections, such as the Corporate Assessment, consideration is being given to means of financing an improved Human Resources IT System. Whilst the draft business case indicates scope for considerable savings on HR (and possibly payroll) costs, some initial funding might be needed. The cost of change budget, using the 2006/7 Business Growth Incentive windfall, could be a possible means of starting this project.

Closing the Revenue Budget Gap

4.21 The outstanding task at November 2006 was to close the gap of over £2.3m. in 2007/8 and narrow the larger gaps in later years' plans. Within this recommended budget, the following adjustments to the 28 November Draft are proposed:

	£000
• One-off debt rescheduling savings (ie first £500k to aid the Revenue Budget; next £2500k to add to Equal Pay funding)	500
• Interest savings	89
• Cumbria Waste Management Ltd. dividends	500
• Reduce the provision for equal pay costs etc. to £9.0m.	400
• Highways maintenance (countered by £3.1m. extra capital maintenance in December 2006 Local Transport Plan announcement)	250
• Street lighting PFI proposal to be halted	250
• Local Committees	100
• Building maintenance (£150k reduction offset by £150k redirected to property and transport functions)	-
• Furness Enterprise grant	51
• Environmental grants	27
• Cultural grants	8
• Additional council tax income (£227k from extra properties offset by £54k reduced surplus)	173

• LPSA reward grant (revenue)	267
• Less White Paper preparatory costs	-300
	2,315

Council Tax

4.22 The County Council has to decide on

- the precept to be levied on each of the District Councils (pro rata to Band D properties with no 'special expenses' in any part of the County)
- the basic amounts of council tax for County Council services for each of the 8 property bands.

4.23 As mentioned previously, the Budget Strategy has been framed within an overall increase of 5% in the County Council's share of the 'headline' Band D council tax from £1,019 to £1,070 i.e. 4.99% or just under £1 per week. To the County Council's share will be added the council tax precepts of the Police Authority, District Councils and Town/Parish Councils. The overall increase of 4.99% is derived from the council tax call of £187.9m. and adjustments for estimated growth in numbers of properties and council tax surpluses. A surplus of £946k has been declared for 2006/7 by the District Councils, alongside a growth of 0.6% in the tax base (both figures being close to the November 2006 assumption of £1m. surplus and 0.5% growth):

	£000
Council tax call	187,924
less surpluses	-946
	186,978
÷ Number of Band D equivalent properties (0.6% increase)	174,696
Band D council tax	= £1,070.30
	£1,070.30

4.24 The recommended increases in council tax levels for each of the property bands are set out below:

	2006/7	2007/8	Increase
	£	£	£
Band A (Up to £40,000)	679.62	713.53	33.91
Band B (£40,001 to £52,000)	792.89	832.46	39.57
Band C (£52,001 to £68,000)	906.16	951.38	45.22
Band D (£68,001 to £88,000)	1,019.43	1,070.30	50.87
Band E (£88,001 to £120,000)	1,245.97	1,308.14	62.17
Band F (£120,001 to £160,000)	1,472.51	1,545.99	73.48
Band G (£160,001 to £320,000)	1,699.05	1,783.83	84.78
Band H (£320,001 and over)	2,038.86	2,140.60	101.74

Prudential Guidelines and Reserves

- 4.25 The Local Government Act 2003 contained several important provisions affecting Revenue and Capital Budgets from 2004/5 onwards. These included affordable borrowing limits in accordance with the CIPFA Prudential Code (covered separately on this agenda).
- 4.26 There are also some specific requirements about financial administration, such as the Chief Financial Officer reporting formally each year under Section 25 of the 2003 Act on the robustness of the estimates and the adequacy of reserves. The following sections comply with those requirements.
- 4.27 The adequacy of Reserves is an important consideration in any budget round, even more so with the introduction of the Prudential Guidelines, which also encourage a medium-term assessment of an authority's finances.
- 4.28 This section of the report examines four elements of the Council's reserves:
- General Reserves and Balances
 - Schools Balances
 - Sums set aside for Equal Pay Arrears

- Insurance Provision and Reserve

General Reserves and Balances

- 4.29 The County Council's General Reserves and Balances have been framed for many years within parameters informed by national guidance and local experience. For example, the District Auditor locally used a yardstick for General Reserves equivalent to 3% of Net Revenue Expenditure (around £9m. at present prices).
- 4.30 A new yardstick appeared from the Audit Commission in the build-up to the 2002 Comprehensive Performance Assessment. The norm became between 5% and 100% of forecast 'net operating expenditure (excluding schools budget)'. The 100% figure was clearly designed with District Councils in mind rather than County Councils! The lower figure of 5% (excluding schools) would be equivalent to around £15m. in 2007/8. That is a useful norm to aim at. I have also identified a 'minimum level of comfort' figure of £6m., below which General Reserves should not fall.
- 4.31 Inevitably, the final outcome depends on judgements about risks and uncertainties. Past experience indicates that individual instances such as those below can cost anything up to £2m. at a time:
- policy decisions
 - extreme weather conditions and extra highway maintenance costs, including the January 2005 flood and storm damage*
 - unplanned budget overspends
 - Foot and Mouth disease*
 - retrospective loss of Revenue Support Grant e.g. recent reworking of population numbers

*Under the Bellwin Scheme for dealing with emergencies, we have been expected to find at least the first £1m. of costs before qualifying for grant aid.

- 4.32 The 2007/8 budget contains a number of other uncertainties and challenges, including:
- the range of volatile budgets not easily managed to a cash limit in the short term such as the waste management budget, winter maintenance, net interest budget etc., where even prudent estimates can be overtaken by events beyond the Council's control;
 - pressures on Children's and Adult Services budgets;
 - the drive for capital receipts to underpin the Capital Programme;

- the impact of ‘accountable body’ status which effectively increases the sums for which the County Council becomes responsible, over and above our ‘nominal’ budget (approximately £900m. over the next 6 years);
- the costs of settlement of equal value claims and Single Status are dependent on the outcome of judgements and negotiations;
- possible calls on the limited sums set aside as earmarked reserves for specific services e.g. Windermere Ferry;
- need to deliver substantial savings incorporated in the draft budget;
- outcomes of bids for Private Finance Initiative funding for the Carlisle Northern Development Route and Fire Stations;
- potential impact of the Local Government White Paper;
- the impact of the significant changes to the Local Government Pension Scheme from April 2008; not only is the scheme itself being revised significantly, but April 2008 also sees the implementation of the results of the March 2007 actuarial valuation of the Cumbria Pension Fund.

4.33 The prospect of substantial equal pay arrears led me to recommend to the Council, at its June 2006 meeting, that the allowance for equal pay arrears be increased from £9m. to £15m. at the expense of reducing General Reserves to the minimum comfort level of £6m. That recommendation was accepted. Given the unforeseen possibilities just mentioned – not least the final cost of settling equal pay arrears – I could not recommend a reduction in General Reserves below £6m. other than in the most exceptional circumstances (which do not apply at present).

4.34 Those are some of the reasons why we keep General Reserves. Sometimes we are likely to make payments but are unsure about the actual amounts. The ‘headline’ figure for General Reserves at 31 March 2007 will overstate the ‘free’ level of Reserves if further commitments (beyond those identified) are then made against those Reserves.

4.35 The latest estimate of General Reserves over the next year is set out below:-

Reserves at 31 March 2006:	£m.
As estimated at February 2006	9.2
Adjusted on closure of 2005/6 accounts	-2.6
Actual reserves at 31 March 2006	<u>6.6</u>
Changes in 2006/7	
Planned withdrawals in 2006/7 Budget	-0.6
Forecast underspend at Month 9	+0.6
Estimated reserves at 31 March 2007	<u>6.6</u>
Planned addition in 2007/8	-
Estimated reserves at 31 March 2008	<u>6.6</u>

Schools Balances

- 4.36 Detailed reports have been presented to the Corporate Planning Working Group's meetings about School Budget balances in hand and deficits. This still matters to the Council, even with the new regime of funding for schools.
- 4.37 There has been a continued improvement in levels of reserves held by schools. Including Standards Fund monies, the figures in hand at 31 March 2006 were:

	Net £000
Nursery	255
Primary	9,435
Secondary	2,926
Special	570
Total	<u>13,186</u>

The above figures are the product of £17.5m. of surpluses and £4.3m. of deficits.

- 4.38 The gross value of deficits is a consideration in setting the appropriate level for the County Council's General Reserves. An extremely cautious view might be to ensure that General Reserves are at least adequate to cover the gross value of those schools in deficit.

Equal Pay: The Ultimate Risk

- 4.39 The ultimate risk for the County Council is going into overall deficit because of the Equal Pay Arrears. This would happen if the funds set aside by the County Council (£15m. already in hand and the actions

being taken to add to this) fail to reach the eventual settlement and Government permission to borrow the rest is not forthcoming.

4.40 However, the budget presented here is competent. It is based on the financing strategy agreed by County Council in June 2006 and the assumptions that we have some success in challenging the Employment Tribunal judgement; that we continue (whilst carrying out our improvement agenda) to save as much as possible as fast as possible; and that we do obtain a borrowing approval.

4.41 By the end of March 2008, the £15m. now in hand could reach at least double that amount, subject to the urgency needed:

	£m.
• Equal pay balance at 31 March 2006	15.1
• Net addition (+) drawdown (-) in 2006/7	-0.6
• Potential transfer from General Reserves on closure of 2006/7 accounts	0.6
• Contribution from 2007/8 Budget	9.0
• Any Capital receipts in excess of £5.5m. in 2007/8	?
• Debt rescheduling windfall (other than first £0.5m. for Revenue Budget)	4.2
• Kingmoor Park share proceeds	2.0
• Potential emergency call from General Reserves in 2007/8 (last resort)	5.0
	say 35.3

But we might not have to pay all the arrears in 2007/8 and there would be up to a further £9m. available from the Revenue Budget in 2008/9 and in later years.

4.42 Obviously, some of the above options would only be used in the most extreme circumstances. The price of running all other reserves down to the bare minimum runs two other risks

- not enough funding left to meet the transitional costs of any Local Government restructuring
- the budget reductions already envisaged for 2008/9 and 2009/10 have to be increased.

Insurances

4.43 The County Council's insurance and risk management policy has been based for many years on 'self insurance' i.e. placing larger risks with external insurers but covering the remaining risks internally (e.g. fire, motor and liability cover).

- 4.44 The funds set aside are always greater than the immediate calls on them, because of the time it often takes for claims to emerge and be settled.
- 4.45 Because of the growing maturity of the self-insurance fund, which had reached £11m. by 31 March 2003, officers initiated two separate studies in 2003 to carry out a periodical test of the likely calls on the sums set aside; one via our external insurers, Zurich Municipal, the other from an independent company.
- 4.46 The results of the two studies differed in their detailed results, but both agreed on the basic conclusion that the insurance fund had become mature enough to deal comfortably with known and anticipated calls relating to liabilities and claims up to and including 31 March 2003.
- 4.47 Inevitably, there is an element of conjecture about this. Some liability claims do not even emerge until 10 to 20 years after alleged incidents or events. On this basis, it was possible to reduce the sums set aside to contribute £1m. of the insurance funds back into the Revenue Budget for 2004/5 and a further £0.5m. in each of 2005/6 and 2006/7; to meet costs of the January flood and storm damage; and to contribute to the Equal Pay fund.
- 4.48 At 31 March 2006, the sums left to meet insurance costs totalled £7.0m.:-
- £3.6m. to meet insurance claims already identified at that date
 - £3.4m. for potential future claims

The adequacy of these sums is kept under close review, but there is now little scope to draw down further in support of the general Council budget.

Robustness of the Estimates

- 4.49 The budget proposed for 2007/08 is based on estimates of future costs and income to be received. This means there is some inevitable uncertainty - annual pay settlements, inflation generally, interest rates, take up of income generating services etc. There are also some areas of expense that are largely demand driven, the most obvious being waste disposal costs, or where costs are not fully within the control of the Council, such as winter maintenance.
- 4.50 Subject to the major reservations noted about equal pay arrears, I am content that reasonable allowance has been made in producing the estimates to meet these potential variations. Unless there are significant and exceptional circumstances during 2007/08, the budget as presented should be adequate to meet the costs of services to be provided in the year recognising that, in some areas, the budget is very tightly drawn. Virement would be needed to respond to instances where some estimates prove to be wrong, or are overtaken by events.

In an organisation with many activities and a turnover of over half a billion pounds (including schools), this is always possible.

4.51 However, there are areas of uncertainty to which I would draw particular attention and which have to be heeded in considering the level of reserves.

- 1) There are services where “efficiency savings” have been built into the budget (including a corporate target of £1.6m. additional procurement savings) and the relevant Service Directors guided by Client Services will need to ensure steps are taken to deliver these savings, either within the Directorates directly or through contractors.
- 2) School balances have grown, after reductions in recent years, but a small number of schools have large deficits to be recovered. The Corporate Planning Cabinet Working Group continues to monitor the situation regularly.
- 3) We might have to contribute to regional fire service initiatives and capital projects, for which no provision has been made in the medium term projections.
- 4) The introduction of a new Financial Information System (the e5 project) in late 2007 is being extensively planned but experience shows that there are always teething problems in such a major change.
- 5) The longer term impact of the waste management project, in terms of capital and revenue costs is not finalised; the impact on Cumbria Waste Management Ltd. has also to be determined.
- 6) The Audit Commission’s auditors have referred to the need to continue to improve the reconciliation of income recovered through departmental debtors systems and this improvement will need to be sustained.
- 7) The Local Area Agreement offers the prospect of financial rewards in later years for delivering improved performance in a range of areas; success will be dependent both on delivery and on satisfactory and accurate performance indicators which verify the improvements
- 8) The ability to generate capital receipts to support the capital programme is dependent on market factors. So, although prudent estimates have been made, the level and timing of receipts may vary. But it also needs to be recognised that the relentless growth in the capital programme is stretching the Council’s capacity to pay for schemes and to carry out the work.

- 9) The restructuring of Cumbria Care represents a risk, in ensuring proper financial control in the move away from the trading account approach.
- 10) The funding package for the Carlisle Northern Development Route has not yet been finalised and there is a prospect of recurrent costs on the Revenue Budget exceeding previous estimates; similar comments apply to the Fire PFI Scheme.
- 11) Interest rate volatility has an impact on both short-term and long term treasury management activities; early action has been taken to lock into historically low long term borrowing rates.
- 12) Subject to the outcome of the County Council's proposals for a unitary authority for Cumbria, there could be significant preparatory and transitional costs, particularly in 2008/9. Steps have been taken to set funds aside but more work will be needed on this if the bid proceeds.
- 13) The steady rise in inflation will put added pressure on pay settlements when Directorate budgets are already being expected to absorb any excess above a 2% rise.
- 14) Above all else, the Equal Pay arrears (and Single Status costs going forward) have made it very difficult – virtually impossible – to forecast the Council's finances with absolute precision. But a clear financing strategy and clear assumptions exist in this budget.

Notwithstanding these areas of uncertainty, I am able to report that, overall, the estimates are sufficiently robust.

Consultation

4.52 Consultation is proceeding, with early involvement of employee representatives (17 July and 31 August meetings), inputs of scrutiny to the budget workshops, sharing of Service Review proposals with partners such as District Councils via Chief Executives and the Cumbria Local Authorities Strategic Board. A further round of consultation meetings, including Scrutiny and Employees, has taken place since the 28 November Draft Budget.

4.53 In addition, the following actions have been taken:

- A short summary of the draft budget was produced for public consultation, and made available on the County Council's website and in public libraries (alongside relevant Cabinet papers). The consultation period was launched through an advert in key newspapers around the County and responses invited via the website discussion forum, writing, e mail, or phone.

- Corporate Directors have arranged briefings and a staff 'Update' has been issued, partners, stakeholders and service users have been advised of the budget proposals.

4.54 A number of letters and webpage comments have been received focusing on two aspects:

- The desire to safeguard services in areas such as libraries and cultural grants, economic development grants, including Furness Enterprise, and support for more vulnerable groups where concerns have been expressed about charges for care services and the reduction in clothing grants. Copeland Borough Council has highlighted the need for effective use of resources in planning applications related to nuclear storage and waste and that budget proposals in general should be 'West Cumbria proofed'. There have also been many letters about the future of Higham Hall. The budget shows continuing contributions from Higham Hall over the next three years and further work is underway to determine how Higham Hall can best keep pace with future expectations about learning and living facilities, including the need for additional investment.
- The proposed increases in council tax. The organisation, 'Is it fair?', has criticised the proposed council tax increases and has provided results from a survey of over 100 residents. There is concern about council tax increases but the survey results also show support for existing service provision.

4.55 The contrasting responses reflect the difficult balance the Council has to strike when preparing a budget that provides sufficient resources for front line services where council tax forms a higher percentage of funding year on year.

Finally

4.56 This has not been an easy budget round. The prospect of substantial equal pay arrears has dominated the Councils' planning. But this has been balanced by a determination to continue the improvement agenda – also evidenced by the ambitious Capital Programme appearing elsewhere on today's agenda. As always, I wish to thank elected members, Corporate Directors and their staff, and those in Finance and Central Services Directorate for their cooperation, support and hard work in preparing this budget.

R. F. Mather
Deputy Chief Executive / Corporate Director – Finance and Central Services
February 2007

