

SECTION 1 - EXPLANATORY FOREWORD

REVIEW OF THE YEAR 2006/07

1.1 THE YEAR 2006/07

Throughout 2006/07 the Council has continued to make progress in key areas identified within the Council Plan and its accompanying Tactical Delivery Plan. This has culminated in the Council being awarded two stars in the 2006 Comprehensive Performance Assessment. The Audit Commission concluded that the Council “is achieving its priorities and has successfully brought about significant improvements in the last few years”. However, the environment in which the Council operates is changing radically and in responding to these challenges the Council has to ensure that value for money services are delivered to Cumbria’s council tax payers and residents.

In October 2006, the Government issued the White Paper ‘Strong and Prosperous Communities’ which made very clear that a continuation of the ‘status quo’ was not an option. The Council’s proposals for a unitary Cumbria were rated highly, with Cumbria receiving top marks for all the initial criteria, being one of only three counties so rated. The final decision recognised that the financial case had been made, locality arrangements were likely to be effective, and there was stakeholder support but that Cumbria’s geography militated against strategic leadership. The Council is considering with partners how best to respond to the White Paper’s challenges and calls for further efficiency in the delivery of local government and public services.

Cumbria is an area of outstanding natural beauty embracing the Lake District National Park, part of the Yorkshire Dales National Park and the Eden Valley. Cumbria is the second largest county and third most sparsely populated. Economic growth between 1998 and 2003 was the lowest in the United Kingdom. Unemployment would be significantly higher, but many Cumbrians are employed in the tourist industry, predominantly in lower paid jobs. However, Cumbria is now the centre of the UK’s nuclear industry with 60% of the nation’s nuclear waste being stored. It is also anticipated that one in three Cumbrians will be retired within 20 years. This places additional strains on health and social services. The future viability of these services is heavily dependent on the creation of a strong and prosperous economy for Cumbria. The Council has already undertaken the following activities to support the economic growth of Cumbria:

- Support to establish a University for Cumbria in 2007.
- Lobbying for the establishment of a Nuclear Skills Academy by 2008.
- Actively promoting inward investment.
- Ensuring that all ‘brownfield’ sites are made available for development.
- Implementing four key highways projects by 2015 including the Carlisle Northern Development Route.

The County Council is responsible for:

- Over 300 nursery, primary, secondary and special schools
- Over 80 community and adult education centres
- 4 Outdoor centres
- 33 residential care homes for the elderly
- 26 day centres for the elderly
- Over 30 disability and mental health day and activity centres
- The extensive provision of home care and supported living care to vulnerable adults
- Maintaining over 7,000 kms of roads
- Nearly 70 public and mobile libraries
- 38 Fire service stations throughout the county
- Port of Workington
- Waste disposal and waste minimisation
- Land reclamation schemes
- A number of country parks and smallholdings

Staff remain key to service delivery. The County Council is organised around seven Directorates. The performance of each Directorate during the year is summarised under section 1.5 below. The Council has developed its performance management arrangements to ensure a strong focus on value for money. Directorates have operated monthly business management boards from 2002 to review financial and performance information, reporting to the Performance Management Cabinet Working Group through quarterly performance reviews. Performance review arrangements have been enhanced through the work of themed Performance Groups throughout 2006/07. These Groups, chaired by Cabinet members, promote greater corporate cohesion by reviewing performance in the context of the corporate theme aims and objectives, rather than focusing on directorates. Management have continued to review directorate performance through Directorate Management Teams. Scrutiny arrangements have also been revised so that Scrutiny Panels shadow the corporate themes.

From April 2006 the Government has radically changed the way Local Authorities are funded. Up to 2005/6 the Revenue Support Grant and Non-Domestic Rates accounted for two thirds of the income needed to maintain services. In 2006/7 the Government introduced a Dedicated Schools Grant to cover the expenditure within schools, but not school transport or special needs. This grant (made under section 14 of the Education Act 2002) is effectively 'ring fenced' to schools so that their total funding needs will be met by central government. Within the accounts, this grant is treated as a specific revenue grant and deducted from gross expenditure on schools. The changes in funding arrangements mean that for all remaining services there is a far greater dependence on Council Tax payments.

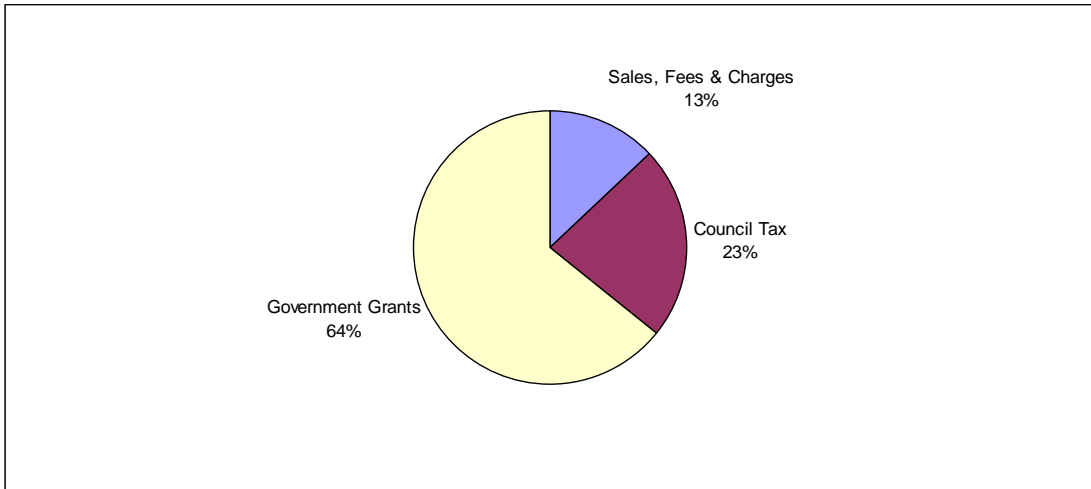
In March 2006 the Employment Tribunal reported its judgement on long-standing equal pay cases. In April 2007 the Remedies Tribunal considered awards based on the existing rulings. However, many of the original rulings were subject to appeal and the Appeals Tribunal is not expected to make a

ruling before August. Despite the continuing lack of certainty surrounding the eventual liability, it is likely that the eventual outcome will exceed the existing resources of the Council. At the end of 2005/06, the Council had set aside £15.3 million as an earmarked reserve. In 2006/07 a further £6.0 million is to be added to the earmarked reserve, largely as a result of Treasury Management refinancing activities. Should these sums be insufficient, the Council put in place a financing strategy in June 2006 to meet the costs of borrowing. Service Reviews in support of the 2007/08 budget identified £9 million annual savings, providing headroom to meet additional borrowing subject to Government approval and help to implement job evaluation and single status. Borrowing and the use of capital receipts will be dependent on obtaining Government approval to capitalise the expenditure.

The following section provides pie charts showing where the money comes from and how it is spent. This covers all services provided by the Council including schools which receive specific grant funding from Government. The charts also include capital spending. The position can be summarised as follows:

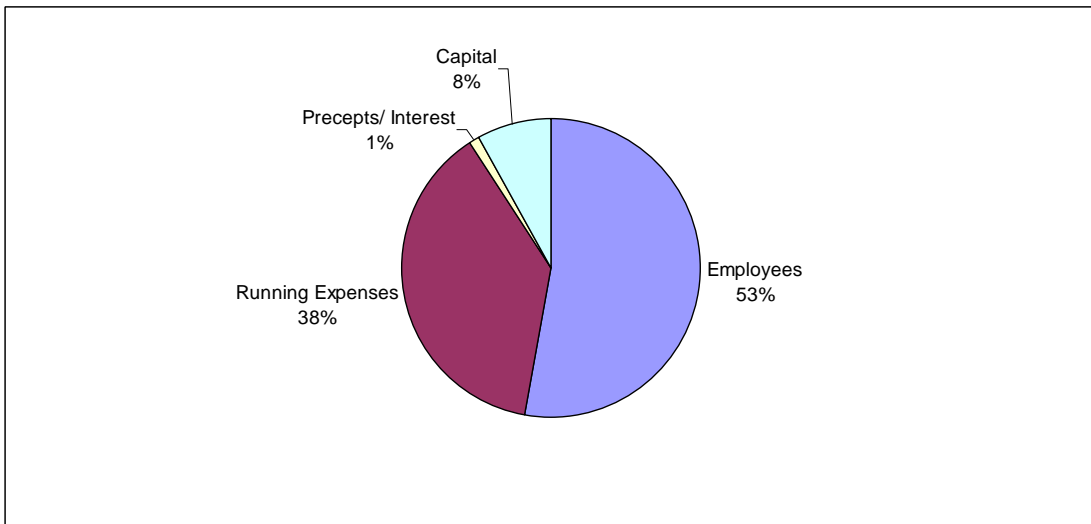
	Revenue	Capital	£000's Total
Sources of Finance			
Government			
General Grants	107,412		107,412
Specific Grants	365,908	27,175	393,082
Council Tax Payers	176,990		176,990
Sales and use of own resources	63,562	3,309	66,871
Borrowings		32,964	32,964
	713,872	63,447	777,318
Areas of spending			
Education (including schools)	407,708	23,068	430,775
Social Services	186,829	1,553	188,382
Highways and Transport Services	27,041	27,372	54,414
Cultural, Environment & Planning	54,264	8,102	62,366
Fire Services	23,616	1,599	25,215
Other	14,413	1,753	16,167
	713,872	63,447	777,318

1.2 WHERE THE MONEY COMES FROM



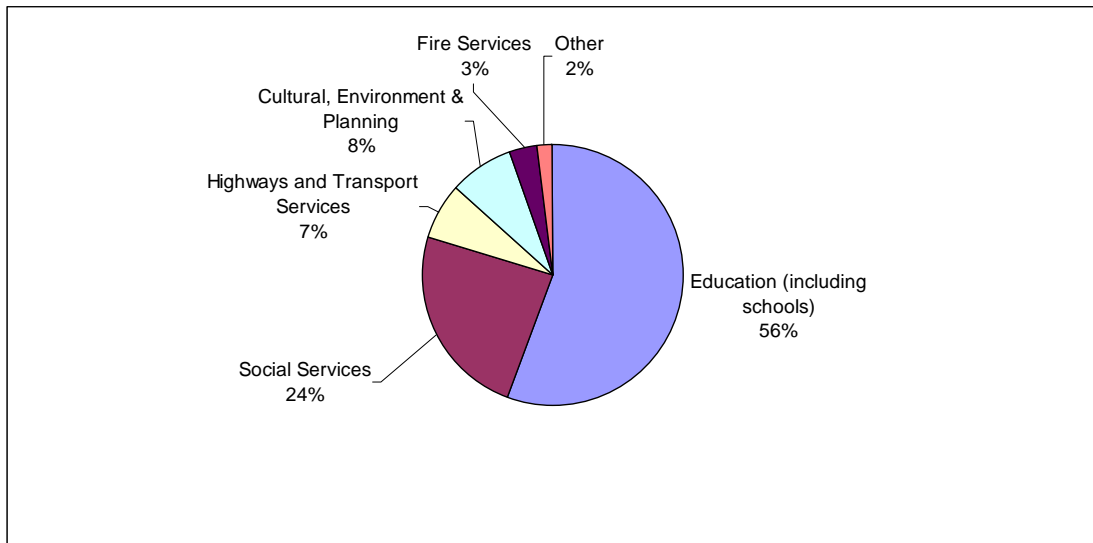
The above chart shows the source of all money used to pay for the Council's services including those Government Grants designated for specific purposes.

1.3 WHAT THE MONEY IS SPENT ON



The Council's services are labour intensive. The County Council employs almost 14,000 staff including teachers (on a Full Time Equivalent basis). Running expenses also include sums spent on agency staff.

1.4 SERVICES WHERE THE MONEY IS SPENT



1.5 COMPARISON WITH THE REVENUE BUDGET

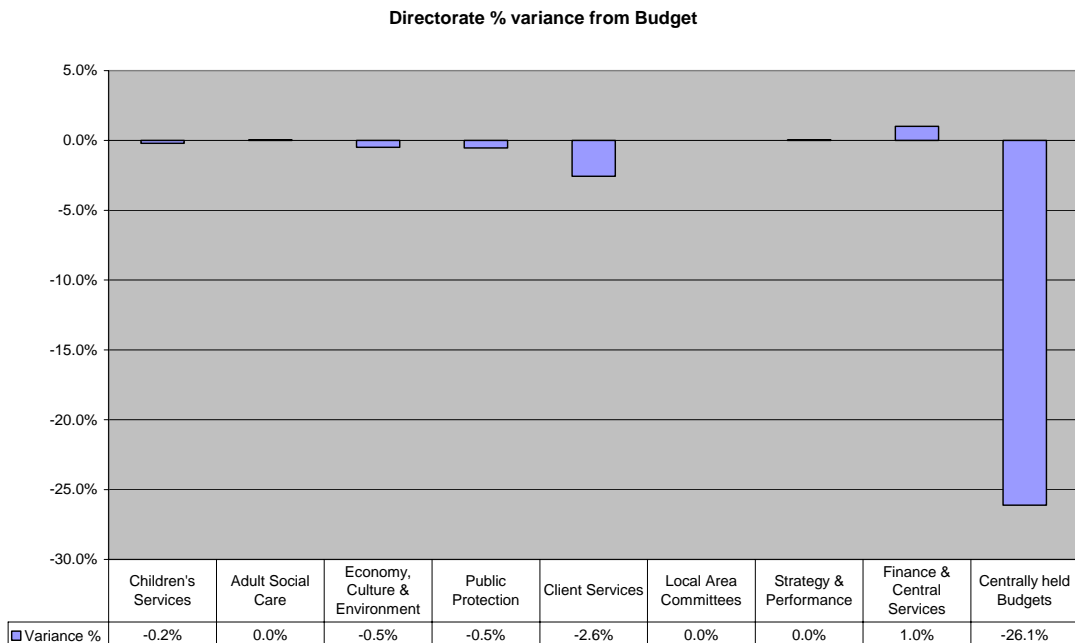
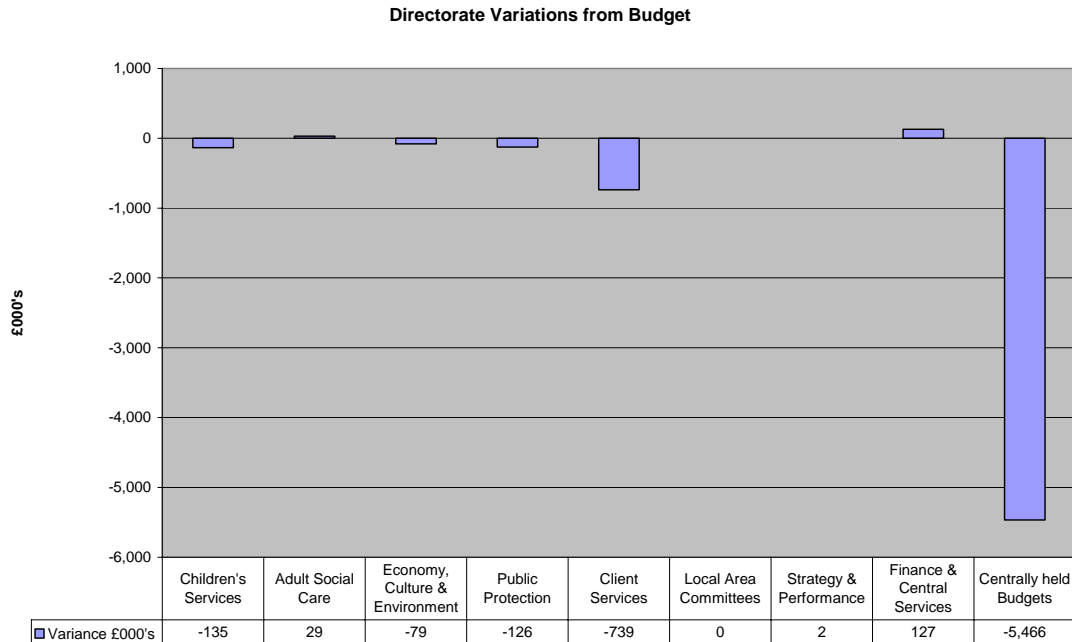
The budget comparison identifies the Council's spending by directorate, how the Council is funded and draw downs from reserves. The figures below summarise the Income & Expenditure Account and Statement of Movement on the General Fund Balance (Section 3). Schools are now funded by a Dedicated Schools Grant received from Government. In order to provide a comparison with previous years, the following statement shows the performance of the County Council and of Schools together with those reserves available to the County Council and those specifically 'ring-fenced' for schools.

2005/06		County Council			Schools		
		2006/07			2006/07		
Actual Out-turn £000's		Final Approved Budget £000's	Actual Out- turn £000's	Difference £000's	Final Approved Budget £000's	Actual Out- turn £000's	Difference £000's
	Net Revenue Expenditure						
317,553	Children's Services	66,437	66,302	(135)	247,214	243,098	(4,116)
92,196	Adult Social Care	97,786	97,815	29			
15,514	Economy, Culture & Environment	16,276	16,197	(79)			
22,815	Public Protection	23,249	23,123	(126)			
33,583	Client Services	28,729	27,990	(739)			
17,653	Local Area Committees	17,484	17,484				
6,010	Strategy & Performance	6,791	6,793	2			
13,181	Finance & Central Services	12,659	12,786	127			
(8,089)	Centrally held Budgets	20,938	15,472	(5,466)			
510,416	Directorate Total	290,349	283,962	(6,387)	247,214	243,098	(4,116)
(8,700)	Equal Pay Provision						
501,716	Net Expenditure to be met from Taxes and Grants	290,349	283,962	(6,387)	247,214	243,098	(4,116)
	Sources of Finance:						
179,731	Revenue Support Grant	17,128	17,128				
154,743	Non-Domestic Rates Pool	88,730	88,730				
	Dedicated Schools Grant				247,214	246,418	(796)
167,385	Council Tax Precepts	176,990	176,990				
1,380	Surplus on Collection Fund	1,554	1,554				
503,239	Total Sources of Finance	284,402	284,402		247,214	246,418	(796)
1,523	Contribution (from)/ to balances	(5,947)	440	6,387		3,320	3,320
	Revenue Reserves						
13,015	County Fund Balance B/f	6,637	6,637				
1,523	Contribution (from)/ to balances	(5,947)	440	6,387		3,320	3,320
4,346	Transfers from Earmarked and Other Reserves						
3,048	County Council	5,947	5,934	(13)			
(15,295)	Schools					(3,320)	
	Transfer to Earmarked for Equal Pay		(6,000)	(6,000)			
6,637	County Fund Balance C/f	6,637	7,011	374			3,320
	Earmarked Reserves						
9,925	County Council	9,083	9,360	277			
15,295	Equal Pay	15,295	21,295	6,000			
15,882	Schools				15,881	19,201	(3,320)
41,102	Total Earmarked Reserves	24,378	30,655	6,277	15,881	19,201	(3,320)
31,857	Total Revenue Reserves						
15,882	County Council	31,015	37,666	6,651		19,201	
47,739	Schools						
	Total Revenue Reserves	31,015	37,666	6,651	15,881	19,201	

The budget for the County Council was originally set at £284.4 million. £5.2 million was transferred from Earmarked Reserves to fund expenditure previously identified by Directorates. A further £0.7 million transfer from General Reserves was approved (primarily to meet pressures within

Children’s Services and Client Services). These transfers resulted in a final approved budget of £290.3 million.

Variances from Budget by individual Directorate have been kept within tight limits and, with the exception of the gains from restructuring long term debt, are relatively minor in comparison to each Directorate’s overall budget.



Children's Services

As a result of schools now being funded specifically by Government, the total approved budget for Children's Services in 2006/07 was reduced to £66.4 million. Approximately £30 million of this budget related to social care for children as this function was transferred from Social Services. Commissioning activities, including home to school transport, partnership working, nursery support, youth and community education and depreciation charges account for the remaining budget. The Directorate was able to work within this budget and ended the financial year with an underspend of £0.1 million. Overspends on home to school transport and out of county placement of children were offset by savings within children's social care.

Adult Social Care

The total approved expenditure for Adult Social Care was £97.7 million. The Directorate was also able to work within its budget. An additional budget allocation was made for 2006/07 to support the growing elderly population within Cumbria. This budget was not fully spent, largely as a result of lower than anticipated demand for homecare services. Over the medium term the Council is expecting intensive demand for care services for elderly people. Within Cumbria Care, cost pressures to maintain residential care are particularly pressing and the Council is reviewing alternatives to ensure that value for money is optimised. Internal recruitment has been closely monitored with essential positions filled. These savings covered overspends within learning disability and drug and alcohol services as well as the overspend in Cumbria Care.

Economy, Culture & Environment

This Directorate was able to operate within the approved budget achieving an underspend of £0.1 million. Changes in market demand for video and DVD rentals have reduced income needed to support libraries. This led to some reductions in library staffing and facilities. However, income from concessionary bus fares was higher than anticipated and bus routes were more closely aligned to available grants.

Public Protection

This Directorate is primarily responsible for the fire service, emergency planning and maintaining trading standards. The final approved budget was £23.2 million and the Directorate achieved a modest underspend against this budget as a result in the small delay in starting the new firefighters' pension scheme.

Client Services

Client Services is responsible for main trading services (Premises and Port of Workington) as well as procurement, highway maintenance and waste management. Consequently, it has a greater exposure to external factors. The total approved expenditure for the Directorate was £28.7 million. In addition, it is responsible for a further £13.2 million for local highways maintenance held within Local Committees. Increases in required nutritional standards for school meals led to a small overspend within premises. Continuing pressures to improve waste recycling rates created a small overspend which was more than offset with the receipt of additional grant income to support the Council's costs in disposing of fridges and electrical goods. The Directorate received notification of its additional entitlement to this grant at the end of the financial year. This grant and savings on road salting as a result of the very mild end to the winter led to the underspend of £0.7 million.

Local Committees

Expenditures within Local Committees, particularly on road maintenance, tend to be incurred over longer time periods and frequently require carry forwards of reserves. The largest area of expenditure is on roads and under spends have been carried forward. As previously mentioned, road maintenance is managed by Client Services.

Strategy & Performance

Lower than anticipated income within the graphics section led to a small overspend. This overspend was offset by savings as a result of delivering the new HR Corporate structure ahead of schedule.

Finance & Central Services

This Directorate had a small overspend, primarily as a result of restructuring within Scrutiny and higher utility costs incurred within Property Services.

Centrally held Budgets

Favourable market conditions gave the Treasury Section the opportunity to restructure a considerable portion of its long term debt and also to extinguish some elements of this debt where interest payments were high. This has led to the receipt of a number of 'one off' discounts generating savings of £4.2 million. Increases in short term interest rates have also allowed the Treasury Section to reduce its net interest costs. The combined result has led to savings of £5.4 million.

1.6 BALANCE SHEET COMPARISON

	2005/06 £000's	2006/07 £000's	% Movement
Long Term Assets			
Fixed Assets	741,597	782,436	6%
Long Term Investments & Debtors	7,198	6,659	-7%
	748,795	789,095	5%
Long Term Liabilities			
Long Term Borrowings	(278,926)	(264,914)	-5%
Capital Grants	(29,190)	(45,052)	54%
Provisions	(4,397)	(3,511)	-20%
Pensions	(438,545)	(399,742)	-9%
	(751,058)	(713,219)	-5%
Working Capital			
Debtors & Stocks	53,961	54,098	0%
Temporary Investments	102,989	79,569	-23%
Cash	5,495	16,448	199%
Creditors	(81,784)	(84,723)	4%
Short Term Borrowings	(2,188)	(1,079)	-51%
Bank Overdraft		(15,473)	
	78,473	48,840	-38%
TOTAL ASSETS	76,210	124,716	64%
Reserves			
Capital	467,016	467,591	0%
Pensions	(438,545)	(399,742)	-9%
Revenue			
Earmarked	41,102	49,856	21%
General	6,637	7,011	6%
TOTAL FUNDS	76,210	124,716	64%

The net worth of the Council has improved significantly during the year, primarily as a result of:

- An improvement in the exposure to pension liabilities as a result of the increase in the Corporate Bond rate used to discount these liabilities. The discount factor used for pension liabilities is extremely volatile and represents the situation at the end of the financial year, although these liabilities need to be met over many years. Consequently, the position is subject to significant change. Section 1.8 provides further detail.
- An increase in reserves as a result of monies earmarked for Equal Pay. The Council has a liability to meet equal pay claims. As the amount of this liability cannot be accurately assessed, it has been treated as a contingent liability with all available resources contributed to the earmarked reserve. Once this liability is finally identified, the net worth of the Council will fall significantly.

Earmarked Reserves represent funds set aside to cover known commitments. The largest portion of these funds relate to Children's Services. These funds are effectively 'ring fenced' for the benefit of schools and are not available for other services within the Council. Consequently, any under spends are carried forward within Children's Services. These reserves total £19.2 million. The

Equal Pay reserve totals £21.3 million. The remaining balance of £9.3 million has been set aside to meet specific Directorate commitments and the Council's insurance fund. The Council maintains an insurance reserve to meet future exposures that are not known at this stage. It is maintained at a level considered to be the minimum required to meet its future potential exposures based on previous claims experience.

The Council has a proactive policy of maintaining its assets. Capital expenditure is focused on areas of greatest service needs. Movements in fixed assets are as a result of the Council's capital programme (Section 1.7), including enhancements to existing assets. Assets are revalued on an existing use basis and these revaluations take account of expenditure on enhancements.

Capital Grants have largely been received to support capital works on school premises where the expected benefits are likely to be received over many years.

Working capital has been reduced as a result of the usage of long term capital borrowings, previously held as temporary investments to finance capital schemes. Cash has also been maintained at minimum levels to optimize investment returns.

1.7 CAPITAL

Service Area:	£000's	%
Education	23,068	36%
Social Services	1,553	2%
Highways and Transport Services	27,372	43%
Cultural, Environment & Planning	8,102	13%
Fire Services	1,599	3%
Other	1,753	3%
	63,447	100%
Funding Source:		
Borrowing	32,964	52%
Grants and Contributions	27,175	43%
Usable capital receipts	2,021	3%
Capital Fund		
Revenue contributions	1,288	2%
	63,447	100%

A capital programme of building and improvements by the Council continued in 2006/07 at levels similar to the previous financial year. Total expenditure in the year amounted to £63.4 million (£64.1 million in 2005/06). Disposal receipts and Revenue Contributions added £3.3 million towards funding the capital programme.

The largest projects upon which expenditure was incurred were:

	£000
Projects over £600,000	
Schools' Standards Fund	15,429
Highways Non Principal Roads Maintenance	10,359
Land Reclamation Schemes	6,444
Primary Road Network Maintenance	2,827
Priority Transport Improvement Schemes	1,855
Education - Facilities for Sports and Arts	2,471
Bridge Assessments, Maintenance, Strengthening	1,384
Highways - Other	1,042
Highways - Major Works	3,533
De- Trunked Road Schemes	1,280
Children's Centres	1,339
Fire Service Vehicles	1,145
Extended Schools	968
	50,076
Other projects - below £600,000	13,371
	63,447

1.8 PENSIONS DEFICIT

The County Council operates pension schemes for the benefit of staff. All staff other than those eligible to join either the teachers or fire services schemes are eligible to join the Local Government Pensions Scheme, which is a defined benefit scheme. The Fire Services and Teachers Pension Schemes are also defined benefit, but are unfunded (i.e. pensions are paid from current contributions rather than from the assets of a pension fund). The Teachers Pension Scheme is administered by the Department for Education and Skills but the County Council remains responsible for discretionary pensions and the resulting pension liabilities. Fire fighters now have two pension schemes. Full time fire fighters in service prior to April 2006 were eligible to join the 1992 Scheme. This scheme has now been closed to new entrants and is replaced with the 2006 Scheme. Both part time and full time staff are eligible to join this new scheme. Under the 2006 Scheme, normal retirement age is 60. Government undertakes to provide pensions, but the County Council is responsible for the injury pension and any injury awards suffered as a result of work related injuries. The County Council is also responsible for funding ill health awards and payments to surviving spouses should death in service arise.

An actuarial valuation of the Local Government Pensions Scheme is carried out every three years. The 2007 actuarial valuation is in the process of being finalised. Consequently, the latest valuation was at 31st March 2004 and identified that assets covered 76% of anticipated future liabilities. The position had deteriorated from the 2001 position of 94%, in line with national trends, primarily as a result of weak Stock Market performance and interest rates. The Actuary recommended an increase in the employers' contribution from 14.7% to 16.4%. At the time of the 2004 Actuarial valuation, it was anticipated

that this revised rate of contribution would eliminate the deficit over a 25 year period.

Under the requirements of FRS17, the County Council has accounted for pension assets at their fair value and pension liabilities are computed by the Scheme Actuary and shown at their net present value. The assumptions used within FRS17 tend to be more prudent with future liabilities discounted by reference to the lower redemption yield on AA rated corporate bonds rather than anticipated investment returns. The assumptions on mortality rates used for FRS17 purposes are consistent with the previous Actuarial valuation. At that time a conservative view was taken by increasing member life expectancy by 2 years over normal mortality expectations. This position will be reviewed again in the 2007 Actuarial valuation and further increases in life expectancy would have a significant impact on the Schemes' liabilities. Over the past year the average rate on AA rated corporate bonds has increased from 4.9% to 5.4%. This is a change in the Actuary's assumptions and has led to an improvement of £51.6 million in the financial position of the Council's pension schemes. The impact of all pension scheme movements is shown under section 3.17 and identifies a net overall improvement of £38.8 million.

DEFICITS WITHIN PENSION SCHEMES	2005/06 £000's	2006/07 £000's
Local Government Pensions Scheme	242,295	206,574
Fire Service Pension Scheme	156,610	155,640
Teachers Pension Scheme	39,640	37,528
	438,545	399,742

However, the net pensions' liability of £399.7 million is 137% of the Council's total net revenue budget in 2006/07 and represents the excess of accrued pension benefits over the market value of any pensions assets. The liability will be a significant long term, but real, call on future reserves, which will limit the extent to which the Council will be able to expand and develop services.

That part of the liability attributable to the Local Government Pensions Scheme, £206.6 million, may be offset by increases in future investment returns. However, this cannot be guaranteed.

That part of the deficit attributable to 'unfunded' schemes, namely the Fire Service and Teachers pensions may be covered in future Revenue Support Grant settlements but this is by no means assured.

1.9 GROUP PERFORMANCE FOR THE YEAR

Consolidated Group Accounts are provided in Section 4 of this report. The individual contributions of the County Council and its subsidiary undertakings can be summarised as follows together with a consideration of the underlying assets and liabilities of each entity.

	Cumbria County Council £000's	Cumbria Waste Mgmt Group £000's	Cumbria Capital Fund £000's	Invest in Cumbria Ltd £000's	Traveline Ltd £000's	Inter Group Transactions £000's	TOTAL £000's
REVENUE							
Net Operating Expenditure	(296,845)						(296,845)
Additional Contribution/ (Costs) from subsidiaries		1,580	(27)	55	3		1,611
Amounts received from Government and Local Taxpayers	284,402						284,402
	(12,443)	1,580	(27)	55	3		(10,832)
General Reserve b/f	6,637	4,916	205		13		11,771
Reserves of acquired subsidiary				164			164
Adjustments for movement on general fund	12,817						12,817
General Reserve of	7,011	6,496	178	218	16		13,920
BALANCE SHEET							
Long Term Assets							
Fixed Assets	782,436	13,694		108	0		796,238
Long Term Investments & Debtors	6,659				38	(2,813)	3,884
	789,095	13,694		108	38	(2,813)	800,122
Long Term Liabilities							
Long Term Borrowings	(264,914)	(316)					(265,230)
Capital Grants	(45,052)						(45,052)
Provisions	(3,511)	(12,732)					(16,243)
Pensions	(399,742)	(439)					(400,181)
	(713,219)	(13,487)					(726,706)
Working Capital							
Debtors & Stocks	54,098	7,961	45	24		(4,524)	57,604
Temporary Investments	79,569	8,160					87,729
Cash	16,448	1,892	134	134			18,607
Creditors	(84,723)	(7,726)		(32)		4,524	(87,957)
Short Term Borrowings	(1,079)			(14)			(1,093)
Bank Overdraft	(15,473)						(15,473)
	48,840	10,287	178	112			59,417
TOTAL ASSETS	124,716	10,494	178	219	38	(2,813)	132,833
Reserves							
Capital	467,591	2,813			22	(2,813)	467,613
Pensions	(399,742)						(399,742)
Revenue							
	49,856						49,856
Earmarked	7,011	6,495	178	219	16		13,920
General		1,186					1,186
Minority							
TOTAL FUNDS	124,716	10,494	178	219	38	(2,813)	132,833

R. F Mather

Deputy Chief Executive/ Corporate Director Finance & Central Services