

SECTION 1 - EXPLANATORY FOREWORD

REVIEW OF THE YEAR 2007/08

1.1 The Year 2007/08

This section gives an explanation in overall terms of the Council's financial position, and assist in the interpretation of the statement of accounts that follow. It also contains a commentary on the major influences affecting the Council's financial performance. It includes the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, and the Balance Sheet.

During 2007/08, the Council continued to develop and enhance its capacity to deliver improved performance and achieve its strategic objectives. The Council Plan is the Council's key policy document which drives thematic budgeting. The outcomes and targets contained in the Council Plan were developed in partnership to refresh the Community Strategy and create the Local Area Agreement. The LAA is highly regarded in the region and provides evidence of effective partnership working, following the outcome of the Council's unitary bid.

The Council publishes its achievement against Council Plan targets in its Annual Report. The 2007/08 Annual Report shows strong performance. Job creation and inward investment targets have been exceeded. There is an increase in the numbers of older adults who are supported to continue living at home. There are improvements in the health and well being of children and young people. There is a reduction in the number of people (both children and overall) killed and seriously injured in road accidents.

The Council was again awarded two stars by the Audit Commission in its Comprehensive Performance Assessment. The Council was judged to be improving its performance across services generally and in priority areas. In its 'direction of travel' judgement, the Audit Commission said "Future plans for services are ambitious. There are good prospects for delivering improvements in their overall quality compared to other parts of the country." The Fire and Rescue Service was given a score of four out of four and judged to be improving well. Services for children and young people were the strongest area of improvement, along with improvement in services to older people. Crime levels were low and communities have noticed further improvement through well organised preventative action. The Cumbria Economic Assessment shows an improvement in the economy, with employment increasing by 9% between 2002 and 2006 and the overall employment growth rate exceeding the national rate. Gross Value Added data from 2005, the latest available, showed Cumbria as the slowest growing county area in the UK. Recent deprivation statistics suggest that there has been a slight improvement in Cumbria's relative position. The Council was developing, with its partners, a strategic approach to improving health and reducing inequalities. The Council's Use of Resources score of 2 and

'improving adequately' overall direction of travel assessment were disappointing and significant attention has been paid to improving performance in these areas.

The ICT Strategic Partnership with Agilisys continued to work on a number of fronts, including the replacement of the Council's financial systems. The previous suite of programmes had grown and developed over many years but was unable to keep pace with developments in financial management and reporting. The 15 month implementation project was delivered to specification, on time and within the budget and was an excellent example of partnership working involving the Council, Agilisys its ICT partner and Cedar, the software supplier. The new system, introduced in December 2007, provides a platform from which further developments are being introduced during 2008/09, including electronic procurement and budget planning modules. The successful implementation has been recognised with the Council now established as a reference site for the new system and exciting proposals for the Council to host shared financial services.

After allowing for agreed use of earmarked reserves and general reserves, the accounts show net expenditure of £302.5 million against a budget of £305.0 million, an underspend of £2.5 million. The outturn was very much in line with budget forecast throughout the year, a testament to the effectiveness of financial monitoring. The Council also delivered a capital programme of £70.6 million. This is the largest capital investment programme the Council has managed, at a time when a number of other councils have reduced borrowing because of revenue budget pressures.

The new financial management system has enabled budget monitoring to be enhanced – reports include analysis of gross spend, income and net spend, traffic light reporting of variances, and narrative explanations of variances have been strengthened. Full budget reports have been produced within four weeks of the month end. Currently budget managers receive monitoring data by automated e-mail each period end but the Council also ran an on-line monitoring pilot for part of the organisation. This is a further facility from the new financial system which has proved very successful, and there are plans to extend this across the Council during 2008/09.

The Council has acknowledged the need for further transformational change across the organisation. In September 2007, membership of the Cabinet reduced from ten to eight, with realigned portfolio responsibilities. Since the accounts were finalised in June 2008, there has been a change in the political leadership of the Council from a Conservative and Liberal Democrat joint administration to a politically proportionate Cabinet. In January 2008, the County Council agreed proposals for restructuring, reducing the size of the corporate management team and altering some of the directorate responsibilities. These new arrangements were introduced from April 2008. These changes are being delivered against a backdrop of considerable financial pressures. Uncertainty remains around the outcome of the equal pay claims and single status implementation and there is a continuing need to deliver efficiency savings. The Council, like all public sector organisations is

required to achieve 3% annual cashable efficiency savings over the next three years.

Cumbria has been described as a county of contrasts. 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. Yet it contains major industrial landscapes. Employment and earnings tend to be stronger in eastern parts of the County than the west, although rural earnings can be low and affordable housing is a major issue. County-wide, economic growth between 1998 and 2003 was the lowest in the United Kingdom but the economy has been growing more quickly since then. Cumbria is now the centre of the UK's nuclear industry with 60% of the nation's nuclear waste being stored in the county. In contrast many Cumbrians are employed in the tourist industry, predominantly in lower paid jobs. Cumbria is the second largest county in England and the third most sparsely populated. But it is experiencing the effects of an ageing population with one in three Cumbrians forecast to 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 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
- 26 day centres
- 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. Staffing numbers at 31 March 2008 are set out below:

Staff Numbers	Number	Full Time Equivalent
County Council (excluding schools)	8,932	6,607
Schools	10,672	7,888
	19,604	14,495

The equivalent total in 2006/07 was approximately 14,000. During 2007/08, the County Council was organised in 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. In 2007/08 performance review arrangements have operated through the Corporate Performance Group and themed Performance Groups. 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, and the Scrutiny Management Board and the Scrutiny Panels maintained their overview role.

The Council continues to make preparations for resolving equal pay claims and implementing job evaluation and single status.

As regards equal pay, legal processes are proceeding and it is highly unlikely that a Tribunal would make any award against the Council before April 2009. 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. Some of the original rulings were subject to appeal with the Employment Appeals Tribunal giving its judgement in November 2007. Permission was granted for further appeals and until the issues relating to the Council's defences are heard by further appeal courts and/or a fresh tribunal, there is no finding against the Council. So it is not possible at this stage to quantify the costs of the Council's potential liability.

By March 2007, the Council had set aside over £20 million as an earmarked reserve for equal pay. In 2007/08 a further £11 million has been added to the earmarked reserve, as a result of £9 million budget efficiency savings identified from the 2006 Service Reviews and capital receipts of £2m from the sale of shares in Kingmoor Park. During the year, some of this reserve was spent in support of the Equal Pay / Single Status project. The overall revenue and capital position stood at £31.1m at the end of 2007/08. As there is a possibility that the eventual outcome will exceed existing resources, the Council is continuing to seek approval from Government to borrow to meet any gap in funding. In September 2007 the Government approved borrowing of £13.8m to help meet equal pay costs in 2007/08, following representations about the need to increase the national level of borrowing approvals. In light of continuing legal processes and uncertainties on the scale and timing of any payments to resolve equal pay cases, the 2007/08 borrowing approval could not be taken up and could not be carried forward automatically to the next year. In May 2008 the Council therefore submitted a further request for borrowing approval should significant costs be incurred in 2008/09. The annual savings from Service Reviews are ongoing, providing headroom to meet additional borrowing costs, subject to Government approval. Borrowing and the use of capital receipts will be dependent on obtaining Government approval to capitalise the expenditure.

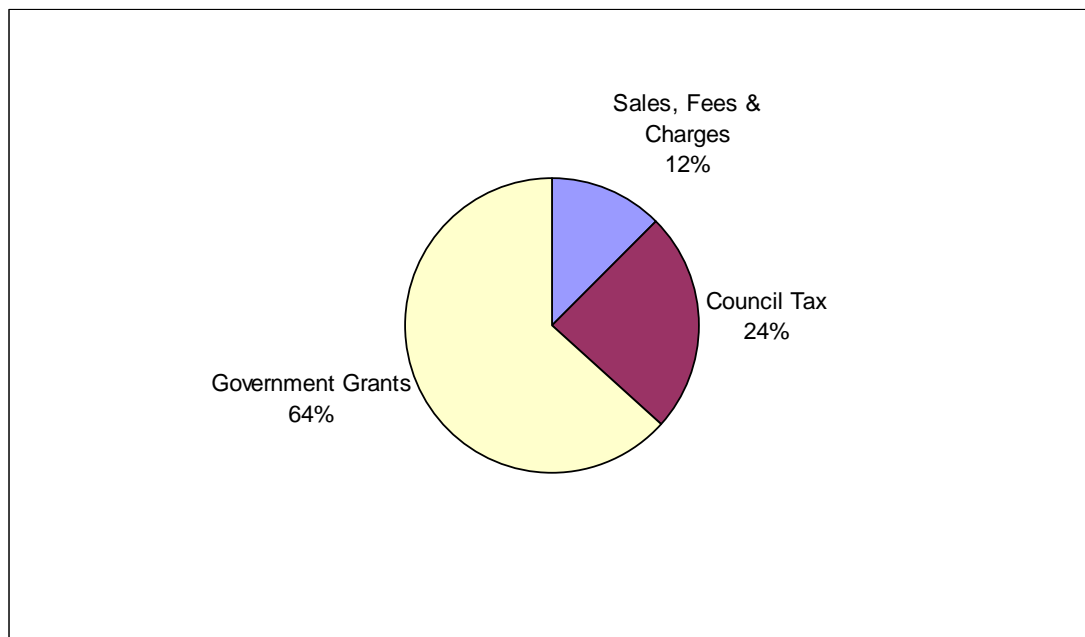
2007/08 has also seen an increase in the number of equal pay claims received from schools staff and this is an emerging issue. The Council is examining possible implications and funding options with stakeholders.

While legal proceedings are continuing, the Council is also discussing with Trades Unions whether a negotiated settlement might be possible. In these circumstances a successful outcome could see payments being made in 2008/9.

The Council is progressing the implementation of job evaluation and single status. Discussions are ongoing with Trades Unions before formal negotiations commence. The ongoing savings from the service reviews in recent years provide headroom for the additional costs of implementing job evaluation and single status (after allowing for any borrowing costs for equal pay).

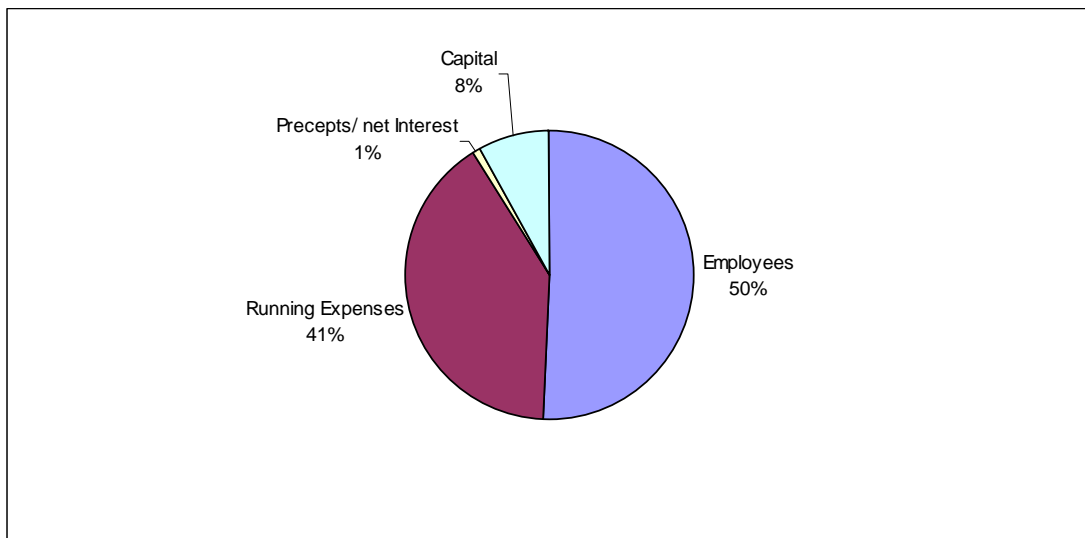
The following section provides pie charts showing where the money comes from and how it is spent. This covers all services provided by the Council including schools which receive specific grant funding from Government. The charts also include capital spending. The Council's revenue expenditure is much higher than the overall revenue budget of £305 million mentioned earlier. This is because the former includes schools budgets and income from specific grants and other receipts.

1.2 Where The Money Comes From



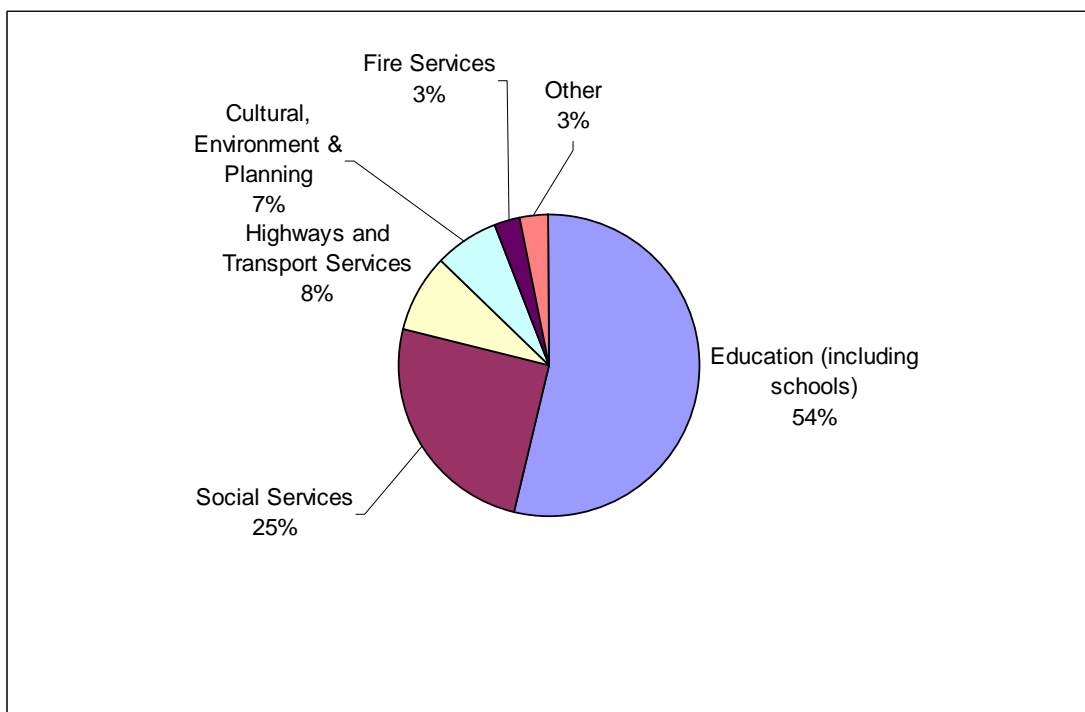
The above chart shows the source of all money used to pay for the Council's services including those Government Grants designated for specific purposes.

1.3 What The Money Is Spent On



The Council's services are labour intensive. The County Council employs some 14,500 staff, including teachers (on a Full Time Equivalent basis) – see page 7 for further details. Running expenses also include sums spent on agency staff.

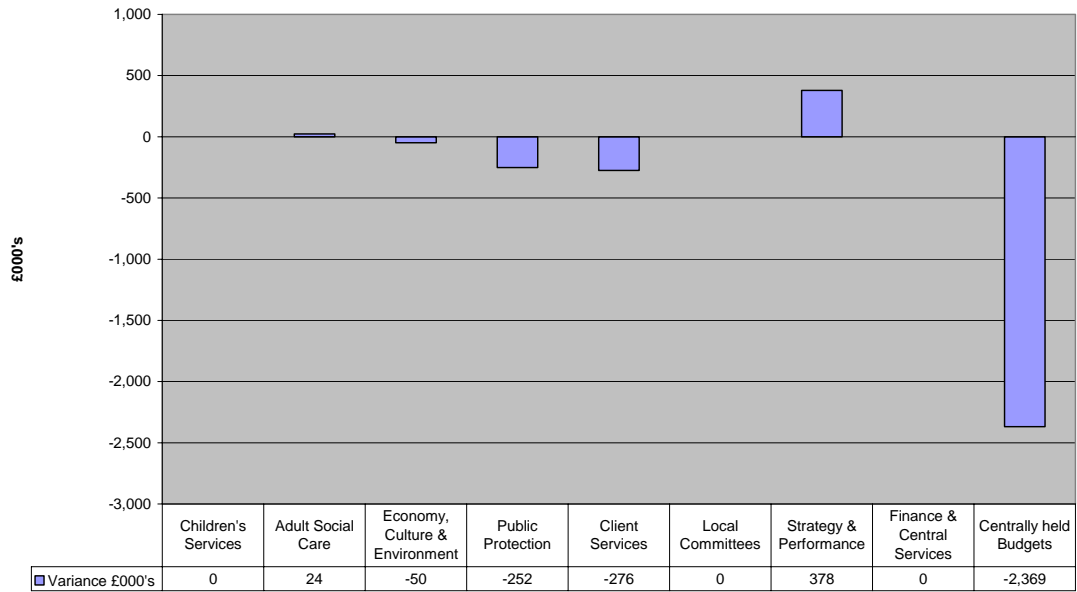
1.4 Services Where The Money Is Spent



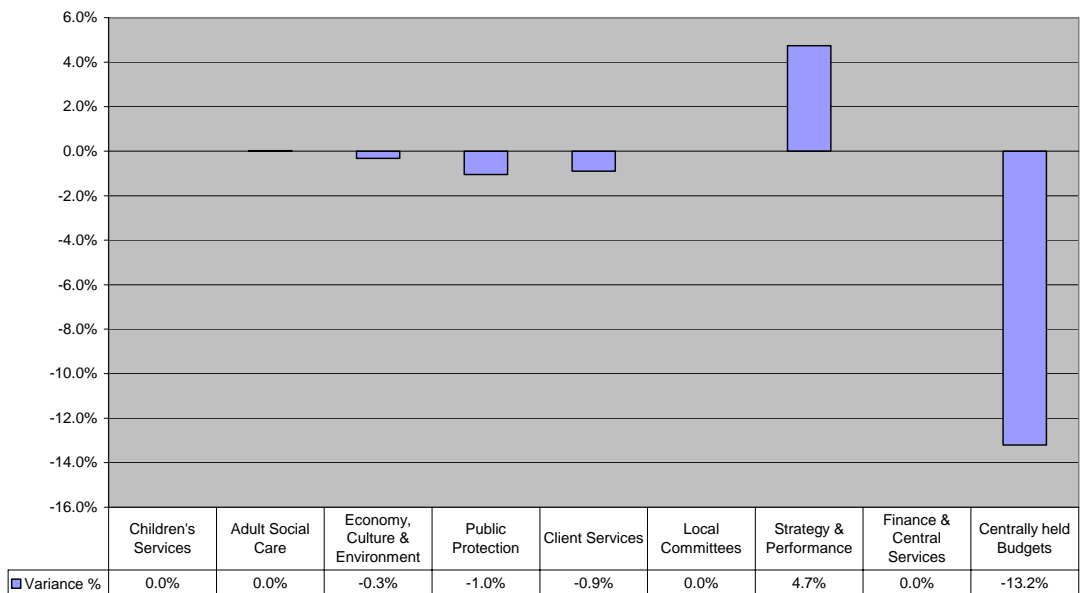
The service headings shown in the chart above are those required by the Government and do not reflect the Council's management structure.

and investment of significant cash balances, are relatively minor in comparison to each Directorate's overall budget.

Directorate Variations from Budget



Directorate % variance from Budget



Children's Services

The total approved budget for Children's Services in 2007/08 was £71.1 million. Approximately £29.6 million of this budget related to social care for children. 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 £0.8 million which is to be carried forward to 2008/9. There was underspending on home to school transport and out of county placement of children although the school organisation budget was overspent as a result of fast tracking the academies programme.

Adult Social Care

The total approved expenditure for Adult Social Care was £101.3 million. The Directorate was also able to work within its budget. The Directorate is currently in the process of transforming Cumbria Care home care services to provide more specialist home care provision. This led to an underspend on the Cumbria Care services with additional home care being commissioned from the independent sector. Elsewhere, careful budget management resulted in actual outturn figures very close to target.

Economy, Culture & Environment

This Directorate was able to operate within the approved budget achieving an underspend of £50,000, after allowing carry forwards of £150,000. Demand for video and DVD rentals has reduced but this was more than compensated by a number of small areas of underspend or additional income. The net position does not reflect the significant volume of work carried out by organisations for which the Council is the accountable body, as well as other externally funded work. Gross expenditure on accountable body work for the year amounted to over £43.0 million, much of this is on economic regeneration projects.

Public Protection

This Directorate is primarily responsible for the fire service, emergency planning and maintaining trading standards. The final approved budget was £24.0 million and there was a modest underspend against this budget in part as a result of staff vacancies in the Fire and Rescue Service and in Trading Standards pending a service review.

Client Services

Client Services is responsible for trading services (Premises and Port of Workington) as well as procurement, highways maintenance and waste management. Consequently, it has a greater exposure to external factors. The total approved expenditure for the Directorate was £30.6 million. In addition, it is responsible for a further £14.8 million for local highways maintenance held within Local Committees. This latter figure includes an additional £1.0 million approved by the Council in January 2008 to deal with deteriorating road surfaces following unusually heavy rainfall. Conversely winter maintenance activity was less than expected resulting in an overall underspend on highways work. The winter maintenance underspend is set aside to fund poor winters. Increased trading ahead of forecasts has led to a surplus for the Port of Workington.

Local Committees

Local Committee expenditure, particularly on road maintenance, tends to be incurred over longer time periods, with underspends being carried forwards. Outturn was therefore in line with the £18.1 million budget.

Strategy & Performance

Lower than anticipated income within the graphics section coupled with restructuring costs led to an overspend of £0.4 million on the £8 million budget.

Finance & Central Services

The ICT budget was overspent, partly due to lower than expected income streams. However, this was more than offset by underspending on building maintenance due to delays in programme delivery, and additional income from Registrars and Legal Services. The latter surplus was rolled forward to meet future years' costs. Outturn was in line with the £18.3 million budget, after allowing for carry forwards

Centrally held Budgets

The impact of debt restructuring coupled with increases in short term interest rates and higher cash balances have allowed the Treasury Section to reduce its net interest costs. Overall, this has resulted in savings of £2.4 million, against the £18.0 million budget, after making provision for restructuring.

1.6 Balance Sheet Comparison

	2007/08 £000	2006/07 £000	% Movement
Long Term Assets			
Fixed Assets	841,714	781,160	8%
Long Term Investments & Debtors	6,143	7,293	-16%
	847,857	788,453	8%
Long Term Liabilities			
Long Term Borrowings	(289,368)	(264,914)	9%
Capital Grants	(68,199)	(45,052)	51%
Provisions	(4,723)	(3,511)	35%
Pensions	(459,042)	(399,742)	15%
	(821,332)	(713,219)	15%
Working Capital			
Debtors & Stocks	79,042	53,464	48%
Short Term Investments	94,106	79,569	18%
Cash	24,399	16,448	48%
Creditors	(109,621)	(84,723)	29%
Short Term Borrowings	(2,523)	(1,079)	134%
Bank Overdraft	(14,078)	(15,473)	
	71,325	48,206	48%
TOTAL ASSETS	97,850	123,440	-21%
Reserves			
Capital	495,896	466,315	6%
Pensions	(459,042)	(399,742)	15%
Revenue			
Earmarked	53,593	49,856	7%
General	7,403	7,011	6%
TOTAL FUNDS	97,850	123,440	-21%

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

- An increased exposure to pension liabilities as a result of the decrease in the Corporate Bond rate used to discount these future liabilities to present values. 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 of £53.6 million represent funds set aside to cover future plans. After the £29.1 million equal pay reserve, 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. The Children's Services reserves total £14.3 million. (See note 3.27 for further details). The remaining balance of £10.2 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 improved, with current assets increasing by more than current liabilities. Cash has also been maintained at minimum levels to optimize investment returns.

1.7 Capital

A capital programme of building and improvements by the Council continued in 2007/08 at levels 11% higher than the previous financial year. Total expenditure in the year amounted to £70.6 million (£63.4 million in 2006/07). Disposal receipts and revenue contributions added £4.8 million towards funding the capital programme.

Capital Spend and Funding Source	2007/08		2006/07	
	£000	%	£000	%
Service Area:				
Education	18,989	27%	23,068	36%
Social Services	1,404	2%	1,553	2%
Highways and Transport Services	29,759	42%	27,372	43%
Cultural, Environment and Planning	7,452	11%	8,102	13%
Fire & Rescue Services	1,365	2%	1,599	3%
Other	11,662	16%	1,753	3%
	70,631	100%	63,447	100%
Funding Source:				
Borrowing	20,914	30%	32,964	52%
Grants and Contributions	44,908	63%	27,175	43%
Usable Capital Receipts	4,001	6%	2,021	3%
Capital Fund	294	0%	0	
Revenue Contributions	514	1%	1,287	2%
	70,631	100%	63,447	100%

The largest projects upon which expenditure was incurred were:

Major Items of Capital Spend	2007/08 £000	2006/07 £000
Projects Over £600,000		
Highways Non Principal Roads Maintenance	12,015	10,359
Land Reclamation Schemes	11,661	6,444
Schools' Standards Fund	9,397	15,429
Priority Transport Improvement Schemes	6,241	1,855
Primary Road Network Maintenance	3,753	2,827
Bridge Assessments, Maintenance, Strengthening	2,534	1,384
Highways – Other	1,936	1,042
Extended Schools	1,404	968
NoWCard	1,401	0
Port of Workington	1,195	0
Highways – Major Works	1,133	3,533
Depot Moves	1,049	0
Childrens' Centres	1,000	1,339
Fire & Rescue Service Vehicles	897	1,145
De-trunked Road Schemes	746	1,280
Education – Facilities for Sports and Arts	0	2,471
	56,362	50,076
Other Projects – below £600,000	14,269	13,371
	70,631	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 Children, Schools and Families but the County Council remains responsible for discretionary pensions and the resulting pension liabilities. From April 2006 firefighters now have two pension schemes. Both part time and full time uniformed 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 most recent valuation reflected the fund's position at 31 March 2007. This showed that assets covered 81% of anticipated future liabilities, which is an improvement on the 2004 position of 76%. Investments

performed less well than the FRS17 assumptions over the year to March 2008, leading to an increase in net liabilities. In addition, the full actuarial valuation (compared with the more limited interim assessment) has resulted in a reported liability loss. The other factor having an impact is the change in actuarial assumptions. Whilst financial assumptions indicated stronger growth in assets, this gain was more than offset by the longer post-retirement life expectancy. Overall, the Actuary recommended an increase in the average employer's contribution from 16.4% to 17.5% for 2008/09 and a similar increase for 2009/10. In doing so, the Actuary anticipated that the revised rate of contribution would eliminate the deficit over a 20 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 generally prudent with future liabilities discounted by reference to the lower interest rates 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. This position is reviewed at each three yearly actuarial valuation and further increases in life expectancy would have a significant impact on the Scheme's liabilities. Typically, the changes in mortality assumptions used by the actuary add a little under 10% to the value of liabilities. The impact of all pension scheme movements is shown under section 3.30 and identifies a net overall deterioration of £59.3 million.

	2007/08 £000	2006/07 £000
Local Government Pension Scheme	280,045	206,574
Fire & Rescue Service Pension Scheme	136,150	155,640
Teachers Pension Scheme	42,847	37,528
	459,042	399,742

The net pensions' liability of £459.1 million is 153% of the Council's total net revenue budget in 2007/08 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, £280 million, may be offset by increases in future investment returns. This cannot be guaranteed, but the separate report on the Pension Fund's accounts shows that the Cumbria Pension Fund has performed consistently well compared to its peers.

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	Cumbria Waste Mgmt Group £000	Cumbria Capital Fund £000	Invest in Cumbria Ltd £000	Traveline Ltd £000	Inter Group Transac- tions £000	TOTAL £000
REVENUE							
Net Operating Expenditure							
Additional Contribution/ (Costs) from subsidiaries	(330,774)	1,322	12	59	2		(329,379)
Amounts received from Government and Local Taxpayers	299,110						299,110
	(31,664)	1,322	12	59	2		(30,269)
General Reserve b/f	7,011	6,496	178	218	16		13,919
Reserves of acquired subsidiary							
Adjustments for movement on general fund	32,056						32,056
General Reserve c/f	7,403	7,818	190	277	18		15,706
BALANCE SHEET							
Long Term Assets							
Fixed Assets	841,714	12,534		86			854,334
Long Term Investments & Debtors	6,143				40	(2,813)	3,370
	847,857	12,534		86	40	(2,813)	857,704
Long Term Liabilities							
Long Term Borrowings	(289,368)	(281)					(289,649)
Capital Grants	(68,199)						(68,199)
Provisions	(4,723)	(12,634)					(17,357)
Pensions	(459,042)	(503)					(459,545)
	(821,332)	(13,418)					(834,750)
Working Capital							
Debtors & Stocks	79,042	8,594	37	60		(3,591)	84,142
Temporary Investments	94,106	1,091					95,197
Cash	24,399	10,768	153	211			35,531
Creditors	(109,621)	(7,547)		(68)		3,591	(113,645)
Short Term Borrowings	(2,523)			(12)			(2,535)
Bank Overdraft	(14,078)						(14,078)
	71,325	12,906	190	191			84,612
TOTAL ASSETS	97,850	12,022	190	277	40	(2,813)	107,566
Reserves							
Capital	495,896	2,813			22	(2,813)	495,918
Pensions	(459,042)						(459,042)
Revenue							
Earmarked General	53,593	7,818	190	277	18		53,593
Minority	7,403	1,391					15,706
							1,391
TOTAL FUNDS	97,850	12,022	190	277	40	(2,813)	107,566

I wish to thank Members and Officers across the County Council for their help once more in compiling these Annual Accounts on such a demanding timescale and for their contribution throughout 2007/08 to the Council's financial administration.

D Wood
Corporate Director - Resources
K McLaughlin-Flynn
Chief Finance Officer