

FINANCIAL
STRATEGIES

A. EFFICIENCY STRATEGY: 2008/9 to 2010/11

Strategy

- 1.1 The County Council has a good track record in delivering efficiency improvements over recent years and is expected to exceed its Gershon targets.
- In the 2004 Budget the Government set annual 2.5 per cent efficiency targets across the public sector for the three years 2005/6 to 2007/8. For the Council this meant an efficiency target of £6.7m for each of these three years, covering most activities – efficiencies in schools and the fire service were reported separately.
 - At least half of the efficiency target had to be met through cash savings where the Council delivers the same standard of service for less money. Up to half of the efficiency target can be counted where the Council delivers higher standards of service for the same cost.
 - The Council is on track to deliver efficiencies totalling £32.2m of which £20.5m (64%) are cashable. This compares to the target of £20.1m.
- 1.2 For 2008/9 and beyond, there is a new efficiency regime. Comprehensive Spending Review 2007 has introduced a 3% efficiency target which includes a number of departures from the earlier Gershon regime:
- The target is 3% a year and this is cumulative (ie 6.1% in year 2 and 9.3% in year 3). The Gershon target was a simple 2.5% a year.
 - All efficiencies have to be cash releasing – only efficiencies that reduce the level of resource required to achieve the same or better outputs can be recorded. Gershon had allowed for up to half of the efficiencies to be non cashable where improvements in services could be scored even if there was no reduction in resource use.
 - The target applies to the capital programme as well as revenue budgets.
 - Gains have to start for the first time from 2008/9. There is some allowance where councils have achieved in excess of their Gershon target (but only where cashable gains exceed the full Gershon target).
- 1.3 The new efficiency regime continues some aspects:
- Efficiencies are based on net gains, taking account of costs of investment and ongoing costs
 - Efficiencies have to be ongoing. Any one-off efficiencies would have to be replaced in the following year.
 - Separate arrangements are being devised for schools and the fire service.
- 1.4 While the Government has not set mandatory targets for individual authorities, the expectation is that local government as a whole should achieve 3% efficiency gains. A specific efficiency target would only apply where authorities include value for money as one of the 35 targets within the

Local Area Agreement. But where there is evidence of underperformance, for example poor use of resources scores, then authorities will come under government and audit scrutiny.

- 1.5 For the County Council the new regime results in the following implied targets:

	2008/9	2009/10	2010/11
Target (£m)	£9.3m	£19.0m	£28.9m
Target (%)	3.0%	6.1%	9.3%

Note these figures are based on 2007/8 budgets and will need to be updated for the 2007/8 outturn figures

- 1.6 The Council is committed to delivering its share of the overall CSR 2007 efficiency over the three years.
- 1.7 The new regime requires the Council to report twice a year. In the autumn, councils have to forecast their expected efficiency achievements in the current financial year (ie October 2008 for the 2008/9 year) and in the summer councils have to report on actual achievements (ie July 2009 for actual achievements in 2008/9).
- 1.8 As part of the preparation of the medium term financial plan, the Council has consistently included draft statements of its efficiency strategy for the forthcoming year in response to the Gershon agenda and it is continuing to set out its efficiency strategy for the new regime. In light of the new approach and further guidance expected, the draft strategy will need to be developed over the next few months before reporting to Government on expectations for 2008/9 in October 2008.
- 1.9 In looking to 2008/9 and beyond, the major drivers of efficiency are likely to include strategic partnerships and the budget process. The Council is taking forward the efficiency agenda through better procurement and utilisation of ICT, facilitating the reengineering of services. Much of this work is in partnership with Agilisys, the Council's ICT strategic partner. Business cases for these major projects identify efficiencies and how these will be made cashable.
- 1.10 Further improvements in efficiency in 2009/10 and 2010/11 are likely to come from business process improvement, in areas such as:
- Internal shared services
 - External shared services
 - Modern office working and the property agenda
 - Reshaping services
 - Management structures and internal capacity
 - Value for money and better use of comparisons

- 1.11 The budget incorporates a £3m target for 2009/10 for these aspects. Over the next few months work will be undertaken to determine the detailed scope and timing of these efficiencies.

Key Actions

- 1.12 The strategic partnerships with Capita, Amey and Agilisys have already delivered significant efficiencies. The Capita and Amey contracts include additional efficiencies each year and for 2008/9 the Council is expected to gain £0.5m new efficiencies from these strategic partners. Agilisys efficiencies will be delivered through implementation of major projects, as a result of the investment of £2m a year in ICT, with efficiencies being reported project by project. For example annual efficiencies of £0.5m from e5 and £0.6m from HR ICT are expected following full implementation of the projects.
- 1.13 The Council is looking to conclude a new strategic partnership for waste management and efficiencies are expected from this contract.
- 1.14 The Council has a strong track record of delivering procurement efficiencies and further £1m efficiencies are expected for 2008/9. Delivery of the e-procurement module should result in significant efficiencies from 2009/10.
- 1.15 Work on asset disposals should deliver significant capital receipts in early 2008/9 resulting in £0.3m additional interest.
- 1.16 In addition to these efficiencies listed above, the Council's annual budgetary processes focus on efficiency where Corporate Directors identify savings measures. Where service levels are unaffected, the resulting efficiency gain contributes to the Council's overall efficiency target.
- 1.17 In Children's Services efficiencies are expected of £0.9m. Examples include savings in staff transport and management costs.
- 1.18 In Adult Social Care efficiencies of £0.9m are identified. Examples include supporting more people to live at home and efficiencies in back office functions.
- 1.19 In Environment, efficiencies of £1.1m are included in the budget. Examples include reductions in waste going to landfill.
- 1.20 The 2008/9 budget incorporates further efficiencies totalling £0.6m. Examples include improvements in the trading performance of the Port of Workington and efficiencies in back office functions.
- 1.21 Under the new regime, the capital programme is fully incorporated. Where the Council is able to make more efficient use of its overall programme, then this can be scored as efficiency. The Council has adopted a structured approach to considering capital bids and has managed to identify alternative funding arrangements for some projects such as e-procurement. This has

meant that further projects have been included in the overall programme that otherwise would have slipped. We are examining the scope for classifying part of this accommodation as efficiency.

- 1.22 The extent to which a council's cashable efficiencies exceed the Gershon target can be rolled forward. For the Council this means that £0.4m can be rolled forward from the Gershon regime and can count towards its 2008/9 target.
- 1.23 Planned efficiencies at this stage total £6.7m compared to the 2008/9 £9.3m target and further work is being undertaken to quantify additional efficiencies. Over the three year period, the Council would expect to achieve its overall target.

Efficiencies 2008/9

	£m
Efficiencies carried forward from 2007/8	0.4
Strategic Partnerships (Capita, Amey)	0.5
ICT Agilisys	1.0
Procurement	1.0
Children's Services	0.9
Adult Social Care	0.9
Environment	1.1
Other	0.6
Capital receipts	0.3
Total	6.7

B. RISK MANAGEMENT

This section sets out the corporate risks for 2008/9 following the Corporate Performance Group's recent risk workshop. Progress on managing these risks will be reported quarterly to the Corporate Performance Group, Performance Group Theme A and the Corporate Management Team. The section also sets out how the Council is strengthening risk management through the updated Risk Management Strategy approved by Cabinet.

The following table summarises the 2008/9 corporate risks rated 15 or above i.e. those with a high rating on the risk management matrix.

2008-09 Review of Corporate Risks

Overall risks and risk owner	2008/9 Corporate Risks	2008/9 score
Human Resources: Single status and HR risks Jim Savege	Implementation of single status/job evaluation not successful Implementation of HR and Payroll ICT not successful	24 15
Funding: Medium term financial strategy undermined Bob Mather	Equal pay costs prove unaffordable Job evaluation/ single status proves unaffordable Budget savings not achieved and benefits not realised Shared services agenda not delivered (Cumbria PSB, out County and District Council opportunities – overall score shown) Efficiency targets not met	20 20 15 15 15
Reputation: Performance ambitions not achieved Peter Stybelski	CPA targets not achieved <ul style="list-style-type: none"> • Retaining Children's Services 3 (Moira Swann) • Gaining a 3 on Adult Social Care (Jill Stannard) • Making the step change required for Use of Resources to achieve a 3 (Bob Mather). • Improved direction of travel (Michael Hyatt) Preparations for CAA not effective (Michael Hyatt) Satisfaction with Cumbria County Council – target not achieved (Michael Hyatt)	18 15 15 15 15 20
Partnership issues: Commercial strategic partnerships fail to deliver Clive Pickering	Negotiations with strategic waste management partner prove unsuccessful Retendering process for services currently provided by Capita not successfully concluded	20 15
Children's Services Restructuring and capacity risks Moira Swann	Children's Services restructuring/school reorganisation not implemented Academies programme not delivered	15 20
Cumbria Care:	Cumbria Care modernisation not delivered	15

Cumbria Care modernisation risks Jill Stannard		
Peter Stybelski Transitional risks	Transitional arrangements for new organisation unsuccessful	15

Risk Management Strategy: Summary

Cumbria County Council is committed to delivering quality services and recognises that achieving its objectives will be enhanced by making risk management an integral part of its organisational culture.

Risk management is a continuous process involving the identification of risk, analysing the probability of the risk occurring and its consequences, controlling the risk by identifying mitigating actions, and monitoring the effectiveness of these actions.

The effective and efficient management of risk forms part of the Council's overall strategic and operational objectives. Risk management is a corporate role owned by Cabinet and the Corporate Management Team, and through them, all Council Members and employees.

Everyone has a part to play in risk management as everyone manages risks. Risk management demands awareness and action from all employees at all levels to reduce the probability of risk occurring and the impact of any loss.

The County Council's risk management arrangements are to be delivered by:

- Integrating the management of risk within the Council's performance reporting procedures.
- Monitoring and reviewing the operation of risk mitigation actions.
- Ensuring that robust systems are in place to identify, profile, manage and monitor all significant strategic and operational risks.
- Involving all those engaged in planning and delivering services, including partners, and reporting annually on the Council's assessment of risk and control.
- Learning from experience, accommodating ongoing change, and ensuring that the strategy is kept up to date.

Delivering the risk management strategy means that:

- The Council operates arrangements for identifying, recording and assessing significant risks, both at strategic and operational levels.

- There is a robust system of internal controls forming part of the reporting process to enhance decision-making, recognising risk management is a continuous process.
- Roles and responsibilities set out who is responsible for identifying, assessing, recording and managing risk at all levels in the organisation, including new risks.
- Monitoring arrangements recognise the role of audit in helping embed a comprehensive risk management culture and develop best practice.
- Training and communication are used to engender and embed risk management throughout the Council to support the process of continuous improvement.

Risk Management Strategy

Cumbria County Council is committed to delivering quality services and recognises that achieving its objectives will be enhanced by making risk management an integral part of its organisational culture. It is essential that the Council's approach is holistic, where risk is considered in its widest sense, embracing physical security and health and safety, as well as broader strategic, political, legal, social, environmental, technical and financial risks.

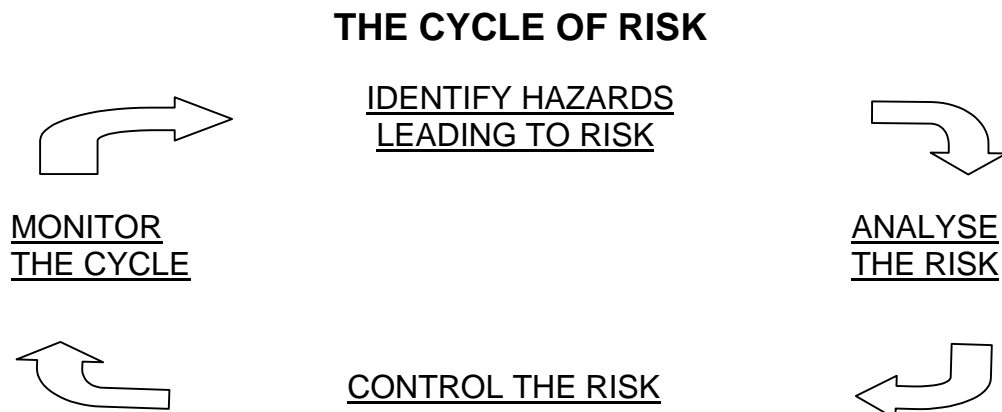
The statutory basis for risk management is set out in the Accounts and Audit Regulations. The Council is responsible for ensuring that financial management is adequate and effective and that there is a sound system of internal control (management and financial) which facilitates the effective exercise of the Council's functions, including arrangements for the management of risk. The relevant body shall conduct a review, which is published in the annual Governance statement of the effectiveness of its system of internal control. A key part of the review is the risk management process, starting with the process for the identification of principal risks to the achievement of the body's objectives, reviewing actions to mitigate risks identified, and reporting to Members on significant matters of concern.

In managing risks, the Council's risk management strategy is led by the Cabinet and Corporate Management Team. The strategy draws on best practice, including the views expressed in 'A Risk Management Standard' prepared jointly by the Institute of Risk Management (IRM), the Association of Insurance and Risk Managers (AIRMIC) and the Association of Local Authority Risk Managers (ALARM).

What is Risk Management

Risk management is a continuous process involving the recurrent cycle of identifying hazards and vulnerabilities that lead to risks occurring, analysing the risk of an event and its consequences, profiling the risk in respect of likelihood and impact, controlling the risk by identifying mitigating actions, and monitoring the effectiveness of these mitigations.

The following diagram sets out the cycle of risk:

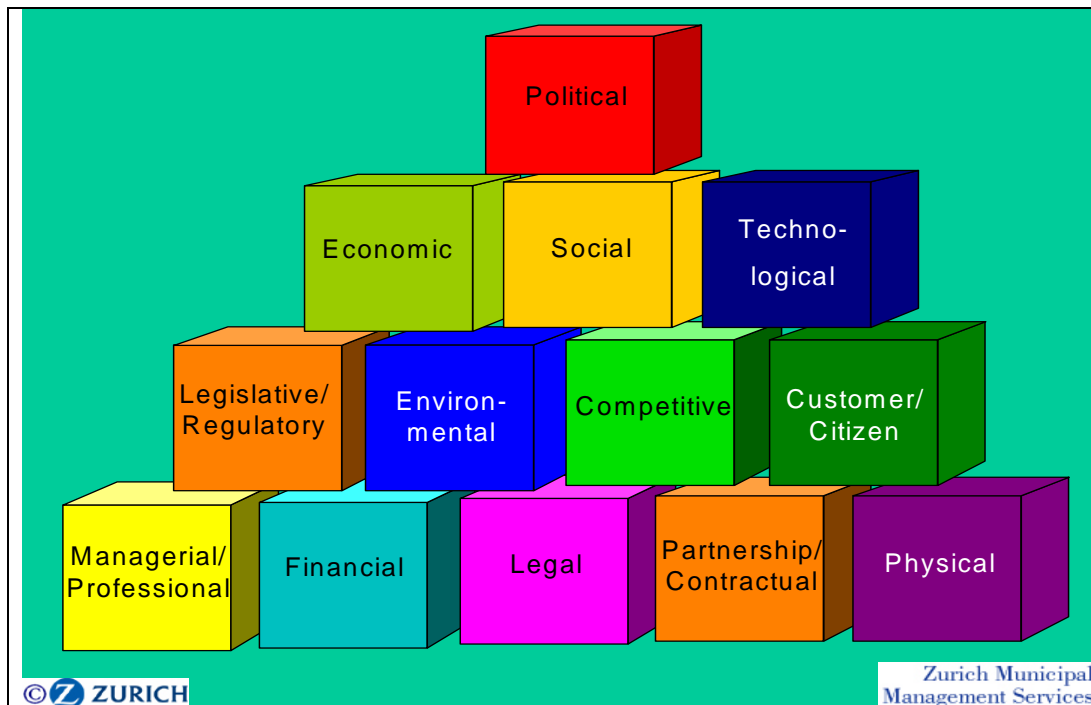


The effective and efficient management of risk forms part of the Council's overall strategic and operational objectives. Risk management is a corporate role owned by the whole Cabinet and Corporate Management Team, and through them, all Council Members and staff.

Everyone has a part to play in risk management as everyone manages risks. It Risk management demands awareness and action from all employees at all levels to reduce the probability and the impact of loss.

The County Council has a wider responsibility to the Cumbrian community and its risk management strategy is broader than the services it provides or arranges on behalf of the Cumbrian community.

The principal risks addressed in this Strategy are evident in the following building blocks:



These different categories of risks can be used at both a strategic and operational level and are relevant for both corporate and departmental risk assessments.

Management of these risks is essential in order to protect the interests of the people of Cumbria; the users of the Council's services; the Council's employees and other resources; the public image of the Council; and the Council's financial and legal exposure.

The County Council has managed its insurable risks using this process, and has provided annual funding for low cost risk management measures to improve performance in property, motor and liability insurance claims. This work is supported by the Finance and Central Services Directorate's Risk Manager and Investment and Risk Officer, the Strategy and Performance Directorate's Corporate Health and Safety Adviser, lead officers from other Directorates, and partners in Police and the insurance companies.

The County Council has extended and formalised this process by identifying, recording, scoring and monitoring all significant risks. These are recorded on a Risk Management template on Performance Plus, the Council's performance management system.

Risk assessments have been built into the annual Service Delivery and Improvement Planning process. This ensures that corporate and directorate risks are taken into account when developing Service Plans. This means that the risks are monitored regularly by the Directorate Management Teams and the relevant Performance Groups, ensuring that risks are effectively managed and action plans monitored and achieved.

Officer support is provided by the Risk Management Group, chaired by the Deputy Chief Executive/Corporate Director – Finance and Central Services, and consisting of senior staff from Directorates and partner organisations. The role of that Group includes wider aspects of risk management – corporate risks, risk mitigation, integration of risk and performance management, and quality assurance arrangements for risk management. The Risk Management Group examines the Council's risks, receives detailed reports from the Directorates on work taking place to address known risks, suggests proposals for improvement, promulgates good practice and arranges risk management training events for Members and staff. Examples of promotion work include:

- Zurich Municipal's facilitation of risk assessment an annual workshop for Cabinet and the Corporate Management Team to refresh corporate risks, taking overall ownership of risk management
- Risk and Action Identification workshops for all Directorates to address risks to achieving the Council Plan and Directorate Service Delivery and Improvement Plan Objectives

All Council directorates are expected to identify, record and control risks and contain loss. A budget has been allocated for the purpose of pump-priming low cost risk management initiatives across the authority and the effectiveness of this spend will be monitored to ensure that it is producing real benefits.

The Council's Risk Management strategy also involves:

- Awareness building across all levels of Council activity by circulars, memoranda, newsletters, seminars and training events.
- Standardising procedures and practices and implementing measures to improve safety and security.
- Considering more sophisticated systems to identify risks and analyse and forecast losses.
- Formally reporting on risk management implications in all committee reports.
- Maintaining internal funds, where appropriate, to meet attritional losses based on statistical analysis of past and forecast claims.
- Using deductibles or self-insurance where financially beneficial to provide a vested interest in loss control. Dependence on insurance will be limited and cover sought where there is a value for money case, seeking cover where financially prudent.
- Promulgating improved Insurance and Risk Management information and investigative procedures within the authority.

- Maintaining an effective Corporate Risk Management Officer Group chaired by the Deputy Chief Executive / Corporate Director – Finance and Central Services. The Group also comprises senior representatives (Lead Officers) of the directorates and departments which experience the greatest loss, the County Council's Insurers and Insurance Consultants, Cumbria Police, Cumbria Fire Service, the Investment and Risk Officer, the County Council's Health and Safety Adviser, the Risk Manager and the Strategic Partner

Roles and Responsibilities

In order that risk management flows from the very top right down to individual units and staff, roles and responsibilities have been defined. All employees and County Councillors are responsible for ensuring there are good levels of internal control and risk management throughout the Council in order that the objectives of the Council and individuals are achieved. Everyone needs to be aware of the risks they are empowered to take, those that should be avoided and those that need to be reported upward and managed.

Cabinet considers and approves the risk management strategy and the annual refresh of corporate risks.

A Cabinet member is the Member risk management champion and acts as the Lead Councillor for risk management.

The **Corporate Performance Group** monitors the effectiveness of risk management throughout the Council. It undertakes an annual refresh of corporate risks, identifying new strategic corporate risks, and monitors the effectiveness of the mitigating actions.

The **Corporate Management Team** is responsible for approving the risk management approach. The Corporate Director, Finance and Central Services, has overall responsibility for risk management and is the Officer Risk Management Champion. The Corporate Management Team affirms and supports the work of risk management throughout the Council, which contributes towards the Council's Annual Governance Statement

Corporate Directors are responsible for identifying, assessing and managing corporate strategic risks and risks to the implementation of the objectives in their Service Delivery and Improvement Plan. They also monitor the effectiveness of the actions implemented in respect of each risk.

Heads of Service are responsible for:

- Ensuring all employees within their Unit understand and comply with appropriate risk management policies and procedures.

- Identifying, assessing and managing operational risks and referring previously unidentified corporate risks to their Director and DMT for consideration.
- Ensuring that their Unit's risk assessments are recorded and controlled.

Directorate Management Teams are responsible for:

- Monitoring, through the use of Performance Plus (P+), each unit's risk management progress and achievements regarding implementing mitigating actions, target dates, etc. and supporting the corporate risk management process.
- Reporting all new and providing updated data in respect of existing risks to their directorate P+ Risk Modeller for inclusion on P+.

The Risk Management Group is responsible for:

- (a) Providing an informed forum at which a wide range of parties, having the common interest of loss reduction and managing risk, can bring together their various specialisms to the benefit of the authority, its staff and the wider Cumbrian community.
- (b) Co-ordinating the overlapping areas of Risk Management, Insurance, Crime Prevention, Fire Safety and Health and Safety.
- (c) Developing the means to record and analyse both incidents and insurance claims data to enable preventative measures to be targeted and trends identified.
- (d) Making recommendations calculated to lessen the impact of, or remove risks. To review progress on general risk reporting throughout the County Council.
- (e) Providing a Risk Management base; a point of reference to promote the development of Performance Plus as a risk and action recording and reporting system on strategic risks and control measures or actions intended to mitigate risks. This will assist risk identification, help audit existing and proposed control measures, anticipate the potential for new risks and permit recommendations intended to minimise their impact.
- (f) Learning and developing its own expertise through evaluating existing loss control measures and provide a reservoir of knowledge and examples of good practice for all departments to draw from.
- (g) Approving or rejecting applications for funding to assist with low cost Risk Management initiatives.
- (h) Encouraging and assisting the development of loss prevention practices for use within departments as a normal part of management.

- (i) Keeping up to date on developments in the field of Risk Management in the public sector.
- (j) Developing and maintaining appropriate links at local, regional and national level.
- (k) Reviewing County Council arrangements for business continuity planning.

Purpose Statement

The County Council's risk management arrangements aim to establish and maintain a systematic strategy, framework and processes for managing risk. This will be delivered in accordance with the following principles:

- **Accountability.** Demonstrated by integrating the management of risk within the Council's reporting procedures.
- **Effectiveness.** Through the inclusion of mechanisms to monitor and review against agreed standards and targets, and the operation of controls in practice.
- **Integrity.** By ensuring that robust systems are in place to identify, profile, control and monitor all significant strategic and operational risks.
- **Openness and inclusivity.** Achieved by involving all those associated with planning and delivering services, including partners, as well as making public statements to stakeholders on our risk management strategy framework and processes. This will include an annual Governance statement of the Council's assessment of risk and internal control.
- **Relevance.** Achieved through learning from experience, accommodating ongoing change, and ensuring that the Policy and Strategy are kept up to date as part of an ongoing review process.

Delivering the Risk Management Strategy

Delivering the risk management strategy means that:

- The Council operates arrangements for identifying, recording and assessing significant risks, both at strategic and operational levels. A register of risks is compiled and risks are analysed in terms of likelihood and impact so that priorities may be determined. This is implemented through use of a risk management template for Performance Plus, the County's performance management system.
- A framework for managing risks within the Council is established. This includes setting up a robust system of internal controls that are integrated into the reporting process to enhance decision-making recognising that the management of risk is a continuous process.

- Roles and responsibilities relating to risk management are clarified, setting out who is responsible for identifying, assessing, recording and managing risk at all levels in the organisation, including new and emerging risks.
- Monitoring arrangements recognise the role of audit in helping embed a comprehensive risk management culture and develop best practice.
- Training and communication are used to engender and embed a culture of Risk Management throughout the Council to support the process of continuous improvement.

C. TREASURY STRATEGY STATEMENT 2008/09

1.0 EXECUTIVE SUMMARY

1.1 This report sets out the draft Treasury Strategy for 2008/09 for the management of:

- **The Council's debt - currently £263.7m**
- **The Council's investments - currently £93.8m**

1.2 The Strategy at Appendix 1 details the expected activities of the Treasury function in the forthcoming financial year in accordance with the CIPFA Code of Practice on Treasury Management, which the Council has adopted. The basis of the Strategy lies in determining the appropriate level of borrowing to support the capital programme and the investment decisions that will be required during 2008/09. These decisions will be taken in the light of anticipated movement in both short and long term interest rates, the main objectives being to minimise interest costs and manage risk effectively. The final decisions about long term borrowing will be dependant on the decisions made in the revenue and capital budget reports.

1.3 It is a statutory requirement, under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget, taking particular account of the revenue costs which flow from capital financing decisions. The CIPFA Code, revised in 2006, clarifies that compliance with this statute must be reported in the Annual Strategy Statement (Appendix 1).

1.4 Appendix 2 details the annual Investment Strategy for 2008/09.

1.5 Appendix 3 incorporates the draft Prudential Indicators, as required by the Local Government Act 2003.

1.6 The Government has put forward proposals regarding the minimum revenue provision (MRP) for debt repayment. If implemented, Council will be required to approve the annual MRP Strategy in the same way it approves the annual treasury management and Investment Strategy. Appendix 4 provides a discussion.

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

2.1 This report is an annual requirement, setting out the Council's policy for treasury activities, which contributes to Improving Council Services.

- 2.2 *Effective treasury management can reduce costs and free up resources for front line services across all themes.*
- 2.3 *The draft strategy reflects the activity levels proposed in the 2008/09 draft revenue and capital budgets.*
- 2.4 *Activity in the current financial year is currently estimated as generating over £3m in revenue savings.*

3 RECOMMENDATIONS

3.1 Council is invited to:

- i) Adopt the Treasury Management Strategy at Appendix 1*
- ii) Adopt the Annual Investment Strategy Statement at Appendix 2.*
- iii) Agree that the Council Treasury Management Section shall continue to operate under the remit of the CIPFA Code of Practice for Treasury Management.*
- iv) Adopt the Prudential Limits and Indicators, as determined under Section 3(1) and (2) of the Local Government Act 2003 and in accordance with CIPFA's Prudential Code, as set out in as Appendix 3.*

3.2 Council is also asked to note the potential requirement for an annual Minimum Revenue Provision Strategy.

J. E. Stocker
Deputy Leader

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

4.0 BACKGROUND

- 4.1 Appendix 1 sets out the proposed Treasury Management Strategy for 2008/09. The emphasis is on managing the risks associated with treasury activity. The report sets out the background and expected context for treasury management activity in the year ahead, including the parameters for borrowing and investment.
- 4.2 The strategy continues to emphasise prudence in the investment approach, whilst attempting to optimise investment returns and limit the cost of debt by setting a target rate for long-term borrowing. Cash balances would only be

used to fund the capital programme in the short term. The borrowing requirement for 2008/09 is dependent on decisions made about both the revenue and capital budgets.

- 4.3 Appendix 2 sets out the proposed Investment Strategy for 2008/09. Estimates of cash balances will remain uncertain in 2008/09 as we settle into the new payment regime within the new financial system and notwithstanding the uncertainty over the date when payments may arise from the equal pay settlements. For every £1m variance in our cash balances our investment income could change by £52k. It must also be recognised that any estimates are inevitably subject to uncertainty with regard to the investment rates available.
- 4.4 Included as Appendix 3 are the Prudential Indicators that must be determined under the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities. These requirements came into operation on 1 April 2004 under the provisions of the Local Government Finance Act 2003. Part 1 of the Act allows a local authority to borrow money for any purpose that is within its control for the prudent management of its affairs. There is no longer a statutory limit to long term borrowing to support capital investment but the key elements of the Prudential Code require evidence that proposed plans have been assessed as affordable, prudent and sustainable.
- 4.5 The Government has recently issued proposals for revising part of the capital finance regulations that currently govern the provision to repay debt (MRP). The present regulations are very prescriptive in terms of the amount that an authority must set aside. The alternative proposal, that the Government has requested views on, would entail authorities taking a 'prudent' approach to determining what provision should be set aside to repay debt. The underlying philosophy behind this proposal is that, as with the Prudential code and the Investment Strategy, the MRP should be governed by guidance rather than statute. This change is to be welcomed. Appendix 4 refers.

5.0 OPTIONS

- 5.1 Subject to any amendments to borrowing requirements, resulting from decisions about the revenue budget and capital financing, Council would recommend:
- The adoption of the Treasury Management Strategy Statement at Appendix 1.
 - The adoption of the Annual Investment Strategy Statement at Appendix 2.
 - The Prudential Indicators at Appendix 3.

Alternatively Council could propose amendments to the statements.

CONCLUSION

- 6.1 As set out in the report the strategy proposed for 2008/09 is similar to that adopted in previous years, when we successfully managed to borrow at the lowest interest rates for the year.

R. F. Mather

Deputy Chief Executive / Corporate Director – Finance and Central Services

APPENDICES

Appendix 1 – Treasury Management Strategy Statement

Appendix 2 – Annual Investment Strategy Statement

Appendix 3 – Prudential Indicators

Appendix 4 – Proposals for amending the MRP regulations.

APPENDIX 1

TREASURY MANAGEMENT STRATEGY STATEMENT 2008/09

1. INTRODUCTION

The proposed strategy for 2008/09 covers:

- treasury limits and Prudential Indicators – Appendix 3;
- the current portfolio;
- prospects for interest rates;
- economic background;
- the long term borrowing strategy;
- short term debt;
- debt rescheduling;
- the investment strategy – Appendix 2.

2. TREASURY LIMITS 2008/09 TO 2010/11

It is a statutory duty under S3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. This means that increases in capital expenditure must be limited to a level which has been assessed as affordable within the projected income of the Council for: -

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increases in running costs from new capital projects.

This is known as the 'Authorised or Affordable Borrowing' Limit and it is one of a number of Prudential Indicators, which have to be agreed by the full Council, in advance of each financial year. The Council must have regard to the Prudential Code when setting this Limit, which essentially requires it to ensure that total capital investment is sustainable and, in particular, that the impact upon its future council tax is acceptable.

The Draft Prudential Indicators are included as Appendix 3 of this report. Final figures are dependant upon the outcome of the revenue and capital budget consultations.

3. The Current Portfolio

3.1 As at the 2 January 2008 the Council's long term borrowing and investment was:-

		Principal 31 Dec 07	Ave. Rate 31 Dec 07
<u>Borrowing</u>		£m	%
Fixed rate funding	PWLB	238.7	4.79
	Market	25.0	4.70
TOTAL DEBT		263.7	4.79
TOTAL INVESTMENTS		93.8	6.01

Annex 1 provides a graphical analysis of the Council's debt.

- 3.2 The borrowing strategy, undertaken over the past four years, has resulted in new loans being taken out at or below a target rate of 4.5%. As a result 80% of our long-term debt is at or below 4.5%, and 90% is at or below 5%.
- 3.3 Long term borrowing, to fund the 2007/08 capital programme, was undertaken in March 2007 as PWLB rates fell to our then target level of 4.25%. No further new borrowing was undertaken. However, in December, we replaced £10m of maturing debt at 4.49%, 0.11% below our presently recommended target rate of 4.6%.

4. PROSPECTS FOR INTEREST RATES

- 4.1 *The Council has appointed Sector Treasury Services as treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. The following table gives Sector's central view.*

Sector interest rate forecast – 24 December 2007

	Q/E4 2007	Q/E1 2008	Q/E2 2008	Q/E3 2008	Q/E4 2008	Q/E1 2009	Q/E2 2009	Q/E3 2009	Q/E4 2009	Q/E1 2010	Q/E2 2010	Q/E3 2010	Q/E4 2010	Q/E1 2011
Bank Rate	5.50%	5.25%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
5yr PWLB rate	4.80%	4.70%	4.65%	4.55%	4.55%	4.60%	4.70%	4.75%	4.80%	4.80%	4.80%	4.85%	4.85%	4.85%
10yr PWLB rate	4.80%	4.70%	4.60%	4.55%	4.55%	4.55%	4.55%	4.60%	4.70%	4.75%	4.75%	4.80%	4.80%	4.80%
25yr PWLB rate	4.65%	4.60%	4.55%	4.55%	4.50%	4.55%	4.55%	4.60%	4.65%	4.70%	4.70%	4.70%	4.70%	4.75%
50yr PWLB rate	4.55%	4.50%	4.45%	4.45%	4.45%	4.45%	4.45%	4.50%	4.50%	4.55%	4.55%	4.55%	4.55%	4.60%

Sector's current interest rate view is that Bank Rate: -

- started on a downward trend from 5.75% to 5.50% in December 2007

- to be followed by further cuts in Q1 2008 to 5.25% and to 5.00% in Q2 2008
- then unchanged for the following two years

If inflation concerns subside however this may result in the Monetary Policy Committee (MPC) making further cuts in the following two years.

ECONOMIC BACKGROUND

- 4.2 Growth in the UK's GDP: growth has been strong during 2007, hitting 3.3% in Q3. This has been attributed in part to higher than forecast immigration from Eastern Europe that has both underpinned strong growth and dampened wage inflation. However GDP is expected to fall to a low of 2.0% in 2008.
- 4.3 The previous combination of increases in Bank Rate and hence mortgage rates, short term fixed mortgage deals ending and being renewed at higher rates, food prices rising at their fastest rate since 1993 and increases in petrol prices, had all put consumer spending power under major pressure. Meanwhile major banks began to tighten their lending criteria, as a result of the sub prime crisis, which generally dampened consumer expenditure via credit cards and mortgages.
- 4.4 The Monetary Policy Committee's (MPC) room for cutting rates is currently limited however by concerns over inflationary pressures, as this is their primary remit. Their dilemma is how to balance this to avoid an overall slowdown in the economy and a fall in GDP growth, as a result of higher than necessary interest rates. The minutes of the meeting in December revealed that fears of an economic slowdown were paramount in their unanimous decision to cut rates to 5.5%,
- 4.5 Whilst rates in these periods are not expected to reduce below 4.45% Sector's forecasts are based around an expectation that there will normally be variations of +/- 25bp during each quarter. As we have seen and taken advantage of in previous years, greater variations can occur should there be any unexpected shocks to financial and/or political systems.

5.0 BORROWING STRATEGY

- 5.1 Over the past few years we have concentrated on borrowing in the 40 to 50 year period, to extend the maturity profile of our portfolio and promote stability in our interest budget. We are now recommending a focus on undertaking new borrowing in or near the 25 – 30 year period as this will maximise the potential for debt rescheduling at a later time and achieve a better spread in our maturity profile, whilst still promoting stability in the interest budget.
- 5.2 We are currently proposing a trigger point of 4.6%, for considering new fixed rate PWLB borrowing in 2008/09. We will continuously review this target in the light of movements in rates during the year and any changes that the PWLB may introduce to their lending policy and operations. Consideration will also be given to borrowing fixed rate market loans, at 25 – 50 basis points below the PWLB target rate.

- 5.3 The borrowing requirement for 2008/09 is dependent on decisions made about both the revenue and capital budgets. However the strategy currently includes the need to borrow £39m to fund the capital programme.
- 5.4 Over the next three years an estimated £110m would be required from borrowing to support the draft capital programmes. Consideration will once again be given to borrowing an element of this requirement early, if long-term rates spike down significantly during the year. There would be no cost of carrying this debt, in the short term, as the short-term rates are still expected to be significantly higher than the long-term rates.
- 5.5 This Strategy does not specifically encompass the potential borrowing requirement to cover the equal pay remedial payments, which will be dependent on decisions made in the revenue budget about sums to set aside as a reserve and ultimately upon the outcome of outstanding legal judgements. The revenue budget is currently reporting a £14m borrowing approval and the Council are submitting another request to borrow a further £22m. Our strategy will be to borrow, within the constraints of the borrowing approvals, so as to minimise costs.

6.0 SHORT TERM DEBT

- 6.1 Short-term debt is used to balance out volatility in daily cash flows or to bridge payments between repaying and refinancing long-term debt. Ordinarily we would aim to restrict such borrowing cash in short-term investments instead. We would only undertake a significant amount of short-term borrowing in extraordinary circumstances, such as to fund capital spend if long term borrowing rates were felt to be artificially high.

7.0 DEBT RESCHEDULING

- 7.1 The introduction of different PWLB rates on 1 November 2007 has meant that PWLB to PWLB debt restructuring is now much less attractive. However, significant interest savings will still be achievable through using LOBOs (Lenders Option Borrowers Option) loans and other market loans.
- 7.2 As average PWLB rates are expected to be minimally higher at the start of the financial year than later on in the year, and as Bank Rate is expected to fall more than longer term borrowing rates during the year, this will mean that the differential between long and short rates will narrow during the year and that there should therefore be greater potential for making interest rate savings on debt by undertaking any debt restructuring earlier on in the year. Any positions taken via rescheduling will be in accordance with the strategy position outlined in paragraph 5 above.

APPENDIX 2

ANNUAL INVESTMENT STRATEGY

1.0 PRINCIPLES

- 1.1 We will have regard to the CLG's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities are: -
- (a) the security of capital and
 - (b) the liquidity of its investments.
- 1.2 We will also aim to achieve the optimum return on County Council investments commensurate with proper levels of security and liquidity.
- 1.3 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules. (Annex 1 to Appendix 2 refers)

2.0 MONITORING CREDIT RATINGS

- 2.1 All credit ratings will be monitored monthly or more frequently if there are concerns about a rating change or potential change. We have access to Fitch credit ratings and are alerted to changes through our use of the Sector website and e-mails from Sector. Actions in response to changes to credit are:
- if a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the counterparty/investment scheme will be suspended immediately. We will also immediately inform our external fund manager(s) of the withdrawal of the same. Any funds in place at the time of down grading will be recovered at the earliest opportunity having regard to cost;
 - if a counterparty is upgraded so that it fulfils the Council's criteria, it will be included as from that date.
 - where there are grounds (press commentary etc) to believe a rating may be down-graded, dealings with the counterparty will be suspended during the period of uncertainty but subject to review with Sector on a case by case basis
- 2.2 Diversification of investments amongst counterparties is achieved by the limits on maximum investments as a % of all investments.

3. INVESTMENT BALANCES / LIQUIDITY

- 3.1 Cash flow forecasts are based on assumptions which are uncertain for 2008/09. However in the absence of definite dates, assumptions have been made about the timing of significant events such as spend on the capital programme and receipts from sales, along with payments in respect of equal pay and single status negotiations.
- 3.3 A minimum level of £30m in short term investments (i.e. repayable or redeemable within 12 months from the date made) is considered appropriate for the proper management of daily cash flow and to avoid extensive short term borrowing.
- 3.4 No fixed cash deposits will be placed for more than 12 months without the prior agreement of the Head of Financial Strategy and recommendations will be based on a projection of cash balances and future cash flows, at the time of the deposit. The uncertainty around cash flow requirements and timing, resulting from the Equal Pay Remedial hearings, is restricting our ability to enhance and secure stability in investment returns by taking advantage of currently high 6 month plus rates.

4.0 INVESTMENT STRATEGY

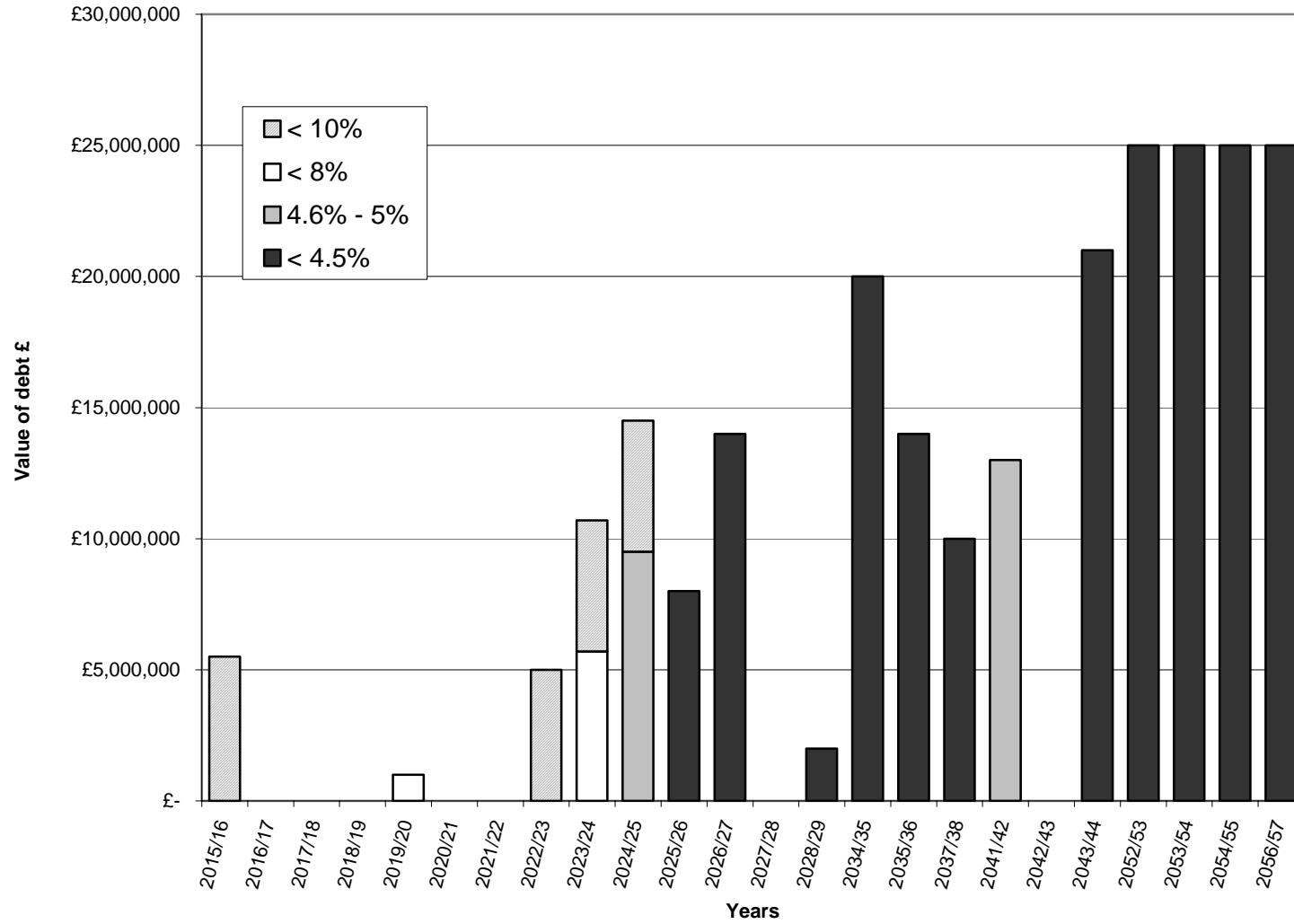
- 4.1 The money market has been more volatile in the current financial year than has been the case for several years. Base rate rose from 5.25% at the beginning of the financial year to a high of 5.75%, before reducing to 5.5% at the beginning of December. Commentators were predicting a further cut in January, which didn't occur, but now expectations are that the cut may happen in February. The average rate for this financial year is higher than it has been for several years but this is mainly due to the effects of the "credit crunch" that pushed short term rates to artificially high levels.
- 4.2 Recent moves in the money market have eased some of the pressure of the "credit crunch" and rates are reverting to more "normal" levels. However predictions about the future level of rates are still at the mercy of world and local events. This time last year, for example, commentators were predicting a stable year with base rate at 5%, falling back to 4.75% by December or January. What we actually saw was a base rate rising to 5.75% and 3 month interest rates of up to 6.85%, at times.
- 4.3 Sector are currently predicting a swift fall in the base rate to 5% and then stability at this rate for a considerable time. This would suggest that we should lock in to longer term rates to help us bolster the average rate of our investments. We have started to do so but we are still constrained by the uncertainty surrounding the date of potential payments resulting from the equal pay hearings. So to are we constrained by day to day cash flow requirements. Within these uncertainties we will attempt to achieve the maximum return on our investments commensurate also with the need to maintain the security of our investments and the interest budget for 2008/09 was initially based on achieving an average return of 5.25% on our investments, this may now have to be reduced to 5%.

5.0 END OF YEAR ANNUAL REPORT

- 5.1 In line with current practice we will report on the Council's investment activity as part of the Annual Treasury Report, at the end of the financial year.

Long Term Borrowing 2007/08 - analysed over interest rate

ANNEX 1
to Appendix 1



Specified Investments**ANNEX 1 To Appendix 2**

(All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

	Minimum 'High' Credit Criteria	Use
Debt Management Agency Deposit Facility	Govt Backed	In-house
Term deposits – local authorities	High Level of Security	In-house
Term deposits – banks and building societies	Short Term F1+, Long-term AA- Individual Support 3	In-house and fund managers
Fixed term deposits with variable rate and variable maturities: -		
Callable deposits	Long-term AA- Individual Support 1,2 or equivalent	In-house and fund managers
Certificates of deposits issued by banks and building societies	Long-term AA- Individual Support 1,2 or equivalent	In-house buy and hold and fund managers
UK Government Gilts	Long term AAA	In-house buy and hold and Fund Managers
Bonds issued by multilateral development banks	Long term AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	Long term AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	In house on a 'buy and hold basis' and Fund Managers
Treasury Bills	--	Fund Managers
Collective Investment Schemes structured as Open Ended Investment Companies (OEICs): -		
1. Money Market Funds	Short term F1+, Long-term AA- Individual Support 1,2 or equivalent	In-house and fund managers
2. Enhanced cash funds	Short term F1+, Long-term AA- Individual Support 1,2 or equivalent	In-house and fund managers
3. Short term funds	Short term F1+, Long-term AA- Individual Support 1,2 or equivalent	In-house and fund managers

Non-Specified Investments:

A maximum of 25% will be held in aggregate in non-specified investments

1. Maturities of ANY period.

	Minimum Credit Criteria	Use
Term deposits with unrated counterparties : any maturity	Sector advice about credit worthiness	In-house

2. Maturities in excess of 1 year

Term deposits – local authorities	--	In-house
Term deposits – banks	Short-term F1+, Long-term AA-, Support 1,2	In-house
Fixed term deposits with variable rate and variable maturities		
1. Callable deposits	Short-term F1+, Long-term AA-, Support 1,2	In-house and fund managers
Certificates of deposits issued by banks and building societies	Short-term F1+, Long-term AA-, Support 1,2	In house on a 'buy and hold basis' and Fund managers
UK Government Gilts	AAA	In house on a 'buy and hold basis' and Fund Managers
Bonds issued by multilateral development banks	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Bonds issued by a financial institution which is guaranteed by the UK government	AAA	In-house on a 'buy-and-hold' basis. Also for use by fund managers
Sovereign bond issues (i.e. other than the UK govt)	AAA	In house on a 'buy and hold basis' and Fund Managers

Monitoring of credit ratings:

1. All credit ratings will be monitored monthly. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.
2. Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

THE PRUDENTIAL CODE

1.0 INTRODUCTION

- 2.1 The Local Government Act 2003 brought about a new capital finance system for local authorities, referred to as the Prudential Code. The Code gives authorities greater freedom to make decisions about long term borrowing, as long as they can demonstrate that they can afford to repay the amount borrowed.
- 2.2 The aim of the Code is to support local authorities when making capital investment decisions, which should reflect the priorities set out in the Council's Corporate Plan.
- 2.3 The key objectives of the Code are to ensure, within a clear framework, that the Council's capital funding decisions are affordable, prudent and sustainable. A further key objective is to demonstrate that treasury management decisions are taken in accordance with good professional practice.

2.0 PRUDENTIAL INDICATORS

- 2.1 The table below details the Prudential Limits and Indicators that have been determined for the three financial years beginning 1 April 2008. It also provides an update on the Prudential Indicators for the two preceding financial years.

Prudential Indicators determined under Section 3(1) and (2) of the Local Government Act 2003 and produced in accordance with CIPFA's Prudential Code APPENDIX 3

PRUDENTIAL INDICATOR - Affordability		2006/07	2007/08	2008/09	2009/10	2010/11
		Actual	Probable	Estimate	Estimate	Estimate
		£ p	Outturn £ p	£ p	£ p	£ p
1	Affordable Borrowing Limit Cost to council tax (band D, per annum) arising from Borrowing above the level in the Revenue Support Grant Settlement.	£2.00	£3.67	£6.06	£9.55	£11.73
		£'000	£'000	£'000	£'000	£'000
2	Estimates of proposed capital expenditure					
	Children's Services	23,047	24,598	38,565	68,774	57,504
	Transport	27,372	30,555	25,224	26,072	27,811
	Adult Social Care / EPCS	6,583	11,269	10,005	9,569	5,455
	Reclamation	6,444	2,159	3,439	1,339	
	Total	63,446	68,581	77,233	105,754	90,770
3	Capital Financing Requirement (as at 31 March) £m	276,009	289,786	316,991	341,971	360,942
4	Ratio of Financing costs to net Revenue Stream (calculated on Revenue Budget inclusive of Dedicated Schools Grant)	3.1%	3.7%	4.0%	4.2%	4.3%
TREASURY MANAGEMENT PRUDENTIAL INDICATORS - Prudence		Actual	Revised	Proposed	Proposed	Proposed
5	Authorised limit for external debt - borrowing	£m	£m	£m	£m	£m
	other long term liabilities ** see below	Within Limits	Within Limits	433	523	573
	TOTAL	-	-	438	528	578
6	Operational boundary - borrowing	Within Limits	Within Limits	423	513	563
	other long term liabilities ** see below	-	-	5	5	5
	TOTAL	-	-	428	518	568
7	Fixed Interest Rate Exposure (£m as at 31 March)	Actual £m	Proposed £m	Proposed £m	Proposed £m	Proposed £m
	Upper limit	Within Limits	Within Limits	433	523	573
8	Variable rate exposure (£m as at 31 March)	£m	£m	£m	£m	£m
	Upper limit	-	-	173	209	229
9	Upper limit for total principal sums invested for over 364 days (per maturity date)	Lower of £20m or 25% of the portfolio at any time to 31 March 2011 - operated within limits				
10	Maturity structure of fixed rate borrowing during 2006/07	Actual 31 March 07	Upper Limit	Lower Limit		
	under 12 months	4%	40%	0%		
	12 months and within 24 months	3%	40%	0%		
	24 months and within 5 years	7%	30%	0%		
	5 years and within 10 years	3%	40%	0%		
	10 years and above	83%	100%	50%		

** these figures exclude liabilities of the CNDP and Equal Pay remedies as figures cannot as yet be calculated.

BORROWING REQUIREMENT AND THE MINIMUM REVENUE PROVISION

Local Authority (Capital Finance & Accounting) (Amendment) (England) Regulations 2007 - Department for Communities and Local Government Consultations

1.0 BACKGROUND

- 1.1 The Minimum Revenue Provision (MRP) is currently governed by Regulation 28 of The Local Government Act 2003 and as applied to the County Council requires the authority to set aside 4%, of what is termed the Capital financing Requirement, on an annual basis to repay principal of money borrowed to finance the capital programme. The provision to repay debt (MRP) commences in the year following the one in which the capital spend is incurred whether the project has been completed or not. The MRP for 2008/09 is estimated as £11.5m.
- 1.2 The current regulations were designed to ensure that, on the introduction of the Prudential capital finance system in 2004, authorities were not faced with a greater Minimum Revenue Provision (MRP) requirement than under the former system, simply due to the technicalities of the transition. However they are very technical and quite prescriptive and the aim of the new regulation is to simplify the rules whilst maintaining the broad effect of the current regulation. The proposed changes are not expected to impact adversely upon the County Council's accounts.
- 1.3 The Government are currently considering authorities responses to the consultation process that ended in December. The underlying philosophy being that an authority's MRP liability will in future be governed by statutory guidance rather than through legislation. A general duty will be placed upon authorities to set aside an amount of MRP, which it considers to be prudent, with responsibility being placed upon full Council to approve an annual MRP Policy Statement.
- 1.4 The big difference is that the proposed regulation takes the opportunity to begin introducing the concept of depreciation, when Prudential Borrowing is undertaken. There are two options which are broadly similar, as they use asset life as a basis for calculating the repayment provision. As with the existing scheme, the requirement to set aside the MRP provision will normally commence in the financial year following the one in which the capital spend is incurred. However paragraph 13 of the guidance highlights an important exception to this rule. Where a project is expected to take several years to complete then MRP can be delayed until completion. This factor would make invest to save projects, in particular, more affordable as the principal repayments (MRP) could be offset against estimated savings, as they start to arise.
- 1.5 As the method of calculating MRP, in respect of Prudential borrowing, will broadly be based on asset life it will result in result in varying provision for different types of assets, with provision being lower for assets with longer lives. In our annual accounts we already use asset life, to calculate the repayment provision of Prudential Borrowing, so no extra funds will be required to comply with the new guidance. However we are assessing the impact on Prudential borrowing generally to assess whether it might be possible to use different financing options, to reduce our future provision.

- 1.6 It is likely to be March before a final decision on the new system is taken, even though it is intended to apply from 31 March 2008, and the Council can give it's formal approval to an MRP Strategy. At this stage it is recommended that the MRP be based on existing regulations and previous accounting practice

D. CUMBRIA COUNTY COUNCIL: VALUE FOR MONEY STRATEGY

Introduction

Since 2005, value for money has had a raised profile as part of the Audit Commission's Use of Resources judgement, feeding into our overall CPA ratings. This paper sets out Cumbria County Council's strategy for delivering value for money. It details our approach to value for money, bringing together existing practice within the Council and highlighting areas we need to develop. The paper covers the Council's vision and objectives for driving value for money, what is meant by value for money, the methodologies employed by the Council in delivering value for money, and the processes used to monitor and evaluate value for money achievements. Whilst a clear strategy is a prerequisite for delivering value for money, it is vital that the Council embraces the strategy in all its activities and processes and that value for money is a key part of the Council's organisational culture. The paper begins by examining the Council's value for money achievements in recent years.

Cumbria County Council's value for money achievements

Cumbria County Council's record of delivering value for money has improved significantly in recent years. The February 2007 CPA results show Cumbria achieving two stars, reflecting the 2s across the board for its 2006 Corporate Assessment and overall 2s for Children's Services, Adult Social Care and Use of Resources. However, Cultural Services and the Fire Service achieved top scores and there was significant improvement in Environmental Services, up from 1 to 3. These assessments when combined with a continued 'improving well' direction of travel, suggest that there are strong grounds for optimism.

Any assessment of value for money has to take account of Cumbria's context: its sparsity and rurality, which add to increased service delivery costs; its ageing population, which increases service pressures, particularly for Adult Social Care; and its relative economic performance, where there are areas of significant deprivation, particularly in West Cumbria, highlighting the need for regeneration and investment in the economy. Cumbria County Council has also responded to the need for improved performance across a range of services in the light of inspection reports and has developed an effective performance management framework, recognised as a growing strength by the Audit Commission.

Key improvements and achievements include:

- The Council has made significant progress in delivering the Gershon agenda. The Council responded enthusiastically to the initial Annual Efficiency Statement in April 2005 forecasting efficiencies in 2005/6 and was cited as being one of the top 10 councils in terms of ambition for the 2005/6 plans. Achievements have been in line with plans and the Council is well placed to exceed its efficiency targets at the end of the three year programme – indeed it is on track to meet the three year target within two years. For 2007/8 the Council has identified an additional £8.6m of new efficiencies.

- The Council has sought to improve its value for money processes by undertaking targeted review work as part of its commitment to delivering value for money. It reviewed areas which are relatively high cost in preparing the 2006/7 budget and has embarked on wide ranging service reviews and cross cutting work as part of its financial strategy for dealing with the pressures of equal pay from 2007/8 onwards. The Council has commissioned external reviews of the Audit Commission's vfm profiles and efficiency statements to ensure there is rigorous external challenge. External review highlights the scope for significant further efficiencies if the Council were to reduce its spend to the median, although the extent to which these efficiencies could be realised would need to take full account of Cumbria's context, which has been recognised in successive Revenue Support Grant settlements as generating higher unit costs per head of population for a given level of service.
- The Council has reviewed its partnership working. As part of its efficiency assessment, strategic partnerships are delivering significant benefits, both cashable and non cashable. Wider partnership working has been undertaken in preparation for the Local Area Agreement beginning in April 2007, building on the 2006/7 Safer and Stronger Communities Fund arrangements. The Council is leading the pan Cumbria agenda for shared services, with property and procurement reviews in the vanguard. In developing its regeneration strategy with Cumbria Vision, regeneration partnerships have been reviewed and lessons learned identified.
- The Invest to Save and Improve programme of the 2001-2005 Administration led to major reviews of many areas of activity, aimed at service and financial benefits, with substantial programme of action. The Council has completed a value for money assessment of the programme in light of the Audit Commission's recent report.
- In recognition of the challenges presented by equal pay, the Council has developed a robust financial strategy. It has increased its resources put to one side to meet equal pay costs to £15m, whilst maintaining appropriate general and insurance reserves. It has made significant progress with its service reviews and cross cutting work, and the 2007/8 budget incorporates £9m savings to help meet the costs of equal pay, including possible borrowing costs. It is liaising with Government, raising the profile of equal pay and the need for Government support, through networking with the Local Government Association and the Society of County Treasurers and directly with Government, and putting down a marker for requesting a capitalisation direction. The budget papers show that the Council might be able to increase the sums available for equal pay to up to £35m by March 2008 without recourse to borrowing, although this would create significant financial pressures and would erode reserves beyond limits considered prudent.
- The Council has reviewed its Treasury Management arrangements and in rescheduling its long term debt, has delivered one off savings of £4.2m in

2006/7 together with a £2m improvement against interest budget by maximising short term interest gains. Over the medium term the debt rescheduling is delivering ongoing savings of upwards of £1m a year. All these savings are adding to the sums set aside for equal pay. The Council has also managed to secure long term borrowing for its capital programme at the lowest rates available in 2006/7.

- Performance and risk management arrangements are better integrated with thematic Performance Groups monitoring financial and non financial performance and risk mitigation. Cabinet and the Corporate Performance Group champion risk management and for 2007/8 risk and performance management are being brought together with the Council's performance management system being used to record risks and actions to mitigate risk.
- There is a marked improvement in BVPIs, with a sustained reduction in the number of performance indicators in the bottom quartile. In 2002/3 49% of BVPIs were bottom quartile. For 2005/6 that figure has fallen to 24% (subject to audit), with 42% and 29% reported in the intervening years. Over the four years 20% of performance indicators are top quartile. Such improvement provides a real return on the Council's targeted investment in areas of relatively poor performance.
- The Council's submission for a unitary Cumbria has been well received by Cumbria wide stakeholders and Government, scoring maximum marks for all five elements. The proposals are recognised as being well presented and the financial case is strong. Delivering a well argued bid to a very tight deadline demonstrates the Council's leadership, ambition and drive, critical qualities for delivering improved value for money. The proposals themselves will generate significant improvements in value for money, savings being directed to services and to council tax payers.

Given Cumbria's demographic, economic and performance context, there has been an improvement in the delivery of value for money.

- As the 2nd largest county by area and the 3rd sparsest county, service delivery costs are inevitably higher than some authorities, with the Council choosing to improve access to services and user focus as set out in the Council Plan priorities.
- The Council has faced a challenging agenda of service improvement alongside a need to invest in key services which reflect the priorities of the sub-region as defined by partnership working.
- The Council has tackled this agenda with comparatively little impact on Council Tax through its successful efficiency initiatives, securing new ways of delivering services in partnership with others, both through its commercial strategic partnerships and in leading pan Cumbria collaborative work with other public sector organisations.

- Other authorities increasingly look to Cumbria to draw on our experience of developing strategic partnerships and building financial strategies for managing the risks posed by equal pay arrears. Indeed the Acting Chief Executive has given radio and television interviews to the BBC on equal pay and the funding issues facing local authorities.

What we mean by value for money

Value for Money is defined as the relationship between economy, efficiency and effectiveness.

- **Economy** is concerned with minimising the cost of resources, whilst having regard to their quality. Examples include: the cost per hour for care worker; the rent per square metre for accommodation
- **Efficiency** is the ratio of outputs to inputs – how much you get out in relation to what is put in. Examples include: the number of people visited per home care worker per week; kilometers of road maintained per £1,000 spent.
- **Effectiveness** is a measure of the impact achieved and can be quantitative or qualitative. Examples include: how many people were prevented by home care services from needing residential care (quantitative); satisfaction levels among different sections of the community (qualitative). Outcomes should be equitable across communities, so effectiveness measures should include an assessment of equity and the Council's performance management system is being developed to provide analyses by locality.

This definition of value for money is embedded within the statutory duty on the County Council to deliver Best Value in the provision of its services.

Value for money approach for 2007

The 2007 Council Plan 'Building pride in Cumbria' identifies five themes for shaping the Council's priorities and objectives, underpinned by the overall theme of improving council service:

Wealthier	Healthier	Happier	Safer	Greener
Making Cumbria more prosperous	Improving the health and well being of adults	Improving the life chances and well-being of children and young people	Creating safe and secure communities	Creating and protecting a high quality environment for all
Better – Improving council services				

Value for money is an integral part of the Council Plan, with the 'better' theme highlighting the need for improved value for money and a striving for high quality services. Targets include improved performance indicators measured by analysis of a basket of PIs, achievement of efficiency savings, and realisation of benefits from investment in ICT, HR and our strategic partnerships. The Council Plan sets out the organisation's core values. These include 'aiming for excellence' with its endorsement of standards of which we can be proud, to be achieved through aiming for continuous improvement, encouraging innovation, and ensuring our services are value for money.

Challenges and risks

Each year the County Council analyses internal and external challenges as part of its medium term planning and risk assessment. The key issues relating to value for money are:

- Financing retrospective equal pay claims and implementing job evaluation/single status
- Rising user expectations about public services
- A demographic profile that is creating additional demands for services for older people
- Growing pressures in waste management and highways
- Delivering services in a sparsely populated, largely rural county
- Government targets on efficiency which are expected to become more demanding in light of the anticipated 2007 Comprehensive Spending Review
- Prospects of relatively lower levels of funding for local government and pressure to keep Council Tax low
- Ring-fencing of funding - particularly in relation to spending on education

Vision for a VFM Strategy

All the Council's services and processes deliver value for money to the residents of Cumbria.

Aims – what value for money means for people who use our services

By providing value for money in Cumbria we will ensure that:

- Our services are fit for purpose, that is they are of the right quality.
- We deliver our services as efficiently as possible, keeping Council Tax rises to within Government guidelines.
- We make the best use of technology, without disadvantaging people who need face-to-face contact.
- We deliver our services as close to people's homes and work as possible, recognising that we live in a county which is predominately rural.
- We listen to what people tell us and make a special effort to reach people who cannot easily express their views and plan our services in the light of what we hear.

- We always seek the best price we can having full regard to the quality of what is being provided.

Strategic Objectives - how we deliver value for money

1. To make best use of service and financial planning

The Council Plan sets out our medium term financial and service objectives for three years. It provides the strategic direction and context for annual business planning leading to decisions about resourcing priorities and setting the Council's budget following extensive consultation and challenge.

2. To deliver the efficiency programme

We have a target of achieving £21m Gershon efficiency savings over the three years to 2007/8. In addition the 2007/8 budget incorporates the results of service reviews where we expect to find savings of £9m a year to help fund equal pay arrears and implementation of job evaluation/single status. We have added external challenge to our efficiency drive through commissioned analysis of areas of relative high spending. We are continuing this challenge through participation in PwC's benchmarking of local authorities, promoting comparison with other authorities and private sector organisations, building on knowledge and expertise from within and beyond the public sector.

3. To maximise benefits from our strategic partners

The Council has well established strategic partnerships with Capita, Amey and Agilisys. These partnerships have contributed to the Council's efficiency programme in recent years and further efficiencies are built into the contracts.

4. To ensure that benefits are realised from investments in ICT and HR

The Council has invested significantly in ICT and HR and there is a need to ensure that the benefits identified in business cases are fully realised.

5. To ensure we have a clear corporate approach to commissioning and procurement and deliver procurement savings

Procurement decisions should be made in line with the Council's corporate procurement strategy. The Corporate Procurement Unit provides support and guidance for all services to ensure the best possible price and quality for goods and services we purchase. We are targeting additional procurement savings of £1.6m in 2007/8 on top of the recurring savings of £1.5m achieved in 2006/7.

6. To deliver the outcomes included in the Council Plan for front line services

The Council Plan and supporting Improvement Delivery Plan detail the outcomes required for our front line service. Progressing these outcomes will be a critical part of our being able to demonstrate value for money.

7. To ensure the capital programme is effectively delivered and financed with interest costs minimised

We have a fully-costed and sustainable programme of capital investment linked to clear priorities in the Medium Term Plan. Our capital programme is prioritised and funded through a balanced portfolio of supported borrowing, prudential borrowing and other external funding, including Private Finance Initiatives. The Council's Treasury Management function has been highly effective, ensuring that the capital programme is funded and that interest costs are minimised. In recent weeks we have rescheduled the County's long term debt, delivering one off savings providing a significant benefit in 2006/7 and annual savings in excess of £1m for the next three years.

8. To undertake a rigorous evaluation process of challenge and scrutiny

The Council endorses the need for effective evaluation of value for money. The Council's performance management system provides a framework for monitoring performance indicators and milestones, with regular reporting to Council, Cabinet, thematic performance groups and management. The system is being developed to provide analyses at local level. Scrutiny and the Audit Committee, the Audit Commission and internal audit, together with management, all have a role to play in evaluating whether the Council has achieved value for money. There is a need to ensure that these various reviews are complementary so as to maximise the benefit from evaluation activity.

Action plan and performance indicators

Annex A provides a draft action plan for 2007/8 against these eight objectives. Quarterly updates will be provided to the Corporate Performance Group, Corporate Planning Cabinet Working Group and the Corporate Management Team.

We will draw on the following indicators to track whether we are delivering the value for money strategy:

- Analysis of BVPIs showing proportion improving and comparison with other authorities
- Audit Commission's use of resources judgement, including aiming for an overall 3 by 2007 and a level 3 for the value for money element by 2008
- Efficiency savings and targets (as part of the Efficiency Programme)
- Benchmarking key services with other authorities
- Monitoring of benefits realisation in major projects.

Embedding value for money in the organisational culture

Having a clear strategy is a prerequisite for delivering value for money but what is also needed is the transformation of that strategy into actions that permeate throughout the organisation, helping to shape an essential part of its culture.

One approach to embedding value for money is to ensure that there are clear processes, which set out requirements for demonstrating value for money, and that these are consistently followed. The Council's Constitution and Financial Procedures already detail processes for securing value for money in areas such as use of resources and procurement. Management review, together with audit activity, should provide assurance that there is adherence to the Council's agreed processes.

More generally there is a need to ensure that value for money is fully addressed in any report to Cabinet and other committees. Where there is a request for additional resources, there should be a clear articulation of the intended outcomes flowing from the additional resources. Business cases should set out the expected costs and savings and non-monetary benefits/impacts, together with a clear phasing of these various monetary and non monetary flows. The evaluation framework should be identified from the outset so that it is clear what tests would be regarded as demonstrating value for money.

We need to draw much more on relevant analyses of comparators and benchmarking. There is a wealth of comparative statistics, which should be used to promote comparisons with other counties and family authorities, and we should utilise the results of more detailed benchmarking, including best of class organisations from outside the local authority and public sector environment. We need to be more analytical and objective in our approach to comparators, where benchmarking is the prompt for a series of intelligent questions on how best to improve performance, including business process reengineering. Variances can either be cogently explained and justified, showing that we are delivering value for money despite higher costs, or we need to draw up clear recommendations for tackling cost and performance weaknesses, removing performance gaps so as to free up resources for other uses and securing improvements in the delivery of value for money.

In these ways we would develop a full appreciation of value for money which would be embedded throughout the organisation and would shape the Council's culture, helping to drive the Council's improvement programme.

Actions promoting achievement of objectives in 2007/8

Strategic Objective	Action	Improvement Plan/Other	Delivery
1. Medium Term Financial Plan	Identify key service areas for further budget review to inform strategic budget decisions, as part of the corporate planning process Extend analysis of comparative costs and performance to identify high cost/lower performing services for potential review through PwC benchmarking/possible Impower consultancy	CPCWG paper April 2007 IDP	
2. Efficiency programme	Deliver Gershon efficiency targets and ensure budget savings achieved	IDP	
3. Strategic partnerships	Ensure commercial strategic partnerships deliver further savings and wider partnerships deliver agreed outcomes	IDP	
4. ICT and HR	Ensure benefits highlighted in ICT and HR business cases fully realised	IDP	
5. Corporate procurement	Ensure procurement targets are met Ensure corporate procurement standards adhered to across the organisation	IDP	
6. Council Plan outcomes	Deliver Council Plan outcomes with top level monitoring of Improvement Delivery Plan	CPG/CMT monitoring of IDP	
7. Capital programme	Develop capital monitoring and complete Treasury rescheduling exercise Revise capital strategy in light of property review work	CPCWG quarterly monitoring IDP	
8. Performance management and evaluation	Ensure performance management system is fully embedded, and that there is integrated coverage of performance, finance and risks Ensure evaluation activity is appropriately coordinated so as to maximise benefits	CPG/CMT monitoring Audit and Assurance Committee/ MAU/ Scrutiny/ Strategy & Performance	

E. BUDGET RISK ASSESSMENT AND SENSITIVITY TESTING

1. This section explains how sensitivity testing has featured in setting the 2008-09 budget, and how risk assessment now features in budget monitoring. Sensitivity testing is embedded in the budget process and that budget monitoring focuses in particular on budgets where there is the highest risk of variance. The two issues are distinct, but there is significant overlap between them.
2. Reports during the budget cycle have highlighted the impact of different levels of grant and council tax on the budget total. For example, see paragraph 5.1 of the Revenue Budget report to Cabinet on 18th December.
3. A further aspect of sensitivity-testing has been to consider how the requirement for individual budget lines might vary under different scenarios, and to use that information to inform the base case for the budget. Sensitivities also inform decisions on the appropriate level of reserves, and the development of other approaches to manage the risk of variances.
4. This approach has been applied in particular where costs change in proportion to an identifiable and variable budget 'driver', for example, client numbers. The budget setting process has considered the effect of different forecasts for key budget drivers on the budget requirement.
5. Paragraphs 4.56 and 4.71 of the budget report to County Council commented on the robustness of the budget, the adequacy of reserves, and identified the most significant uncertainties. Sensitivity testing has been applied where there is an almost continuous variable that underpins the budget. Of these uncertainties, this approach is most applicable to:
 - Waste tonnages and landfill
 - Winter maintenance treatments
 - Adults Social Care demographics
 - Assumptions underpinning CNDR contract
 - Pay and inflation provisions
 - Balances and rates underpinning the capital financing budget
 - Scenarios under Equal Pay
6. The following table summarises for each of these the sensitivities tested during the budget round and how this has informed the final budget. The analysis considers:
 - The range of foreseeable forecasts underpinning the budget, and the evidence to support those forecasts
 - The basis of the core assumption
 - The likelihood of variation from this assumption, informed by past experience and current plans

- The effect of the range of reasonably foreseeable variation on the budget requirement
 - Other measure being taken to manage, smooth, or offset the risk
7. Other issues identified reported to County Council Report also influence the assessment of the adequacy of reserves. However, these do not have clearly identifiable drivers in the same way as the issues identified above.
 8. Corporate budget monitoring in 2007-08 and previous years has been supplemented by more detailed reporting of higher risk areas of the budget. CPCWG have received additional reports on Adult Social Care, Children's Services, winter maintenance and waste management. These reports have included analysis of activity data alongside budget forecasts and management action.
 9. Budget monitoring now includes more detailed assessment of the budget variance and this approach will be continued and enhanced for 2008-09. This assessment considers both the magnitude of the variance and the uncertainty of the forecast. The less certain the forecast, the higher the assessment of risk. This means that the assessed risk will usually reduce towards the end of the year.
 10. In 2008-09 this assessment will include the items highlighted in paragraph 5. The scope is wider, however, because it includes budgets that do not have such clearly identifiable drivers.
 11. Overall, risk evaluation and sensitivity testing have both informed the 2008-09 budget setting process. This approach provides a starting point for monitoring throughout the year, and the development of options for 2009-10 and beyond.
 12. The following table illustrates the main sensitivities considered in setting the budget for 2008-09.