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Department for Levelling Up, Housing and Communities

Local Government Finance Review – COPELAND BOROUGH COUNCIL

December 2021

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1. Executive Summary

Copeland Borough Council requested Exceptional Financial Support from the Department for Levelling Up, Housing & Communities (herein DLUHC) in respect of the financial year 2021-22 and 2022-23 to help it balance its budget by raising capital borrowing to support some of its revenue expenditure. Accordingly, DLUHC agreed in-principle to provide support in 2021/22 and commissioned CIPFA to undertake an independent and detailed financial assurance review of Copeland Borough Council (the Council).

Copeland Borough Council have faced several financial challenges in recent years. The Council faced a successful business rate appeal from Sellafield in 2015 which resulted in substantial losses for the Council of £13m yet Sellafield remains the most significant business in the borough generating 75% of business rates.

The Council experienced a cyber-attack in 2017 that brought down key systems and brought business activity to a standstill. These issues have significantly delayed the preparation of the Statement of Accounts for a number of financial years and have impacted on the Council’s operations. The cyber-attack disabled both financial and other critical service IT systems creating long-lasting effects on the Council's ability to function properly. This was a zero-day exploit, meaning that the ransomware attacked an unknown security vulnerability not previously identified by software vendors.

As a small, rural authority, The challenges of austerity have been exacerbated by factors including the reliance on the nuclear industry and 2017’s devastating cyber-attack. The LGA Peer Team witnessed great resilience amongst staff, senior managers, the Mayor and Elected Members, and credit should be given to the workforce for their continued aspiration for Copeland’s future.

In a statement made by Robert Jenrick, then Secretary of State for Housing, Communities and Local Government, it is suggested that Cumbria, subject to Parliamentary approval, be split into two unitary councils - an East unitary council covering the existing areas of Barrow, Eden and South Lakeland and a West unitary council covering the existing areas of Allerdale, Carlisle and Copeland.

This proposal has been welcomed by Copeland to transform service delivery in Cumbria. Copeland’s budget for 2022-23 will be its last budget with vesting day for the new Unitary Council on 1st April 2023. The Council has identified £150k in its MTFS to support the implementation of the new Unitary Council however, early indications from Copeland are that this will be insufficient, an indicative £3m per local authority has been suggested by the Council, consideration needs to be given to how the implementation will be funded.

Drawing on our experience of over 200 financial management reviews and our policy work setting financial standards for local government, the current financial challenge facing the Council is severe. The financial ‘gap’ currently forecast for 22/23 of £4.2m, combined with the draining level of reserves is a significant risk for the authority’s financial sustainability in the short term. Without further exceptional support and use of reserves will leave the Council in the territory of issuing a Section 114 notice according to Council officers.

The scope of CIPFA’s review does not cover the governance matters at the authority. Our assessment is that in terms of finances, is that we are not assured that the council will balance its medium-term financial position. The Council has had some difficult issues to deal with, not least the cyber-attack of 2017, and must work collaboratively to resolve its financial planning challenges as it moves into LGR.

Priority will need to be given to balancing the Council's budget in the short term to achieve stability. The Council are likely to have greater prospects for sustainability under Local Government reform. This recognises in particular:

1. The substantial savings required for the 22/23 budget which equates to almost half of the Council's core budget.
2. The potential increase in risk and liabilities from borrowing for the capital programme estimated to be £22m by 23/24. Copeland have stated in their MTFS, that borrowing would not be taken out unless it is affordable i.e. can be met through reduced costs or income.
3. Limited capacity within the Authority to deliver on Local Government reform. Reserves have been set aside to support delivery of LGR, however this will need to be assessed to ensure that the assumptions made are adequate.

Our conclusion is that the Council will require immediate Government support in the form of a capitalisation direction of £1.5m per annum for the financial years of 21/22 and 22/23. However, with a significant budget gap, with this support in 22/23 – this still may not be enough (noting that the settlement for next year will not be announced until December 2021).

Recommendations on strengthening financial sustainability

CIPFA proposes the following actions to be taken forward to re-position the Council to successfully implement Local Government reform. The key recommendations of this report are outlined below:

1. **On Future Financial Sustainability –** Provide a detailed plan to close the short-term gap and potential gaps leading to Local Government Reform in the 2022-23 and 23/24 Financial Years. The Council will need to prioritise immediate financial stability going into Local Government reform with an MTFS refresh to balance the budget for 22/23.

   We recommend that: -

   - The Council refresh the MTFS to balance the budget to the year 22/23 and to 23/24 when Local Government reform is expected to take place. The current one- year MTFS is balancing the annual budget through use of reserves and the capitalisation support indicated by Government on an in-principle basis subject to this review. A new longer term MTFS will need to be balanced over a longer time horizon taking the Council into LGR with a plan of efficiencies, commercialisation of services as per the approach outlined in the Council's commercial strategy and potential further support from DLUHC. At the time of writing, the Cumbrian authorities in scope for LGR are discussing what planning horizon they should plan for regarding their respective revised MTFS.

   - The MTFS summarises scenario planning and sensitivity analysis but this should be more explicit and sensitivity analysis to aid management and member's understanding of the impact changes to assumptions could have on future budgets. Members need to be aware of the risks to the budget and levels of reserves in the future and will need to make choices on service-based priorities reflective of what they can afford.

- Refresh capital programme to assess the on-going achievability of schemes and as business cases are put forward robustly assess affordability. Currently the time horizon of the capital programme far outstrips the MTFS. This will need to be aligned and factor in LGR to assess the affordability of the schemes and the timings of planned capital expenditure with LGR. Whilst we do not believe LGR should hinder investment in services, there must be a transparency of the affordability of the programmes over a longer time horizon.

- The Council should consider the use of integrated reporting that considers financial performance alongside service performance targets, selected demographic and other contextual analysis and staffing KPIs. This can help members and the public to consider financial resources in the context of wider value for money and effectiveness. However this should be considered in the context of LGR and future reporting structures post LGR.

2. Future Sustainability – Preparing for Local Government Reform: -

We recommend that: -

1. The Council's £33m planned borrowing (which is planned to be match funded, from savings or additional income and in some cases, levelling up and town deals will need to be refreshed and aligned with a revised MTFS to capture the affordability of these programmes. Currently the time horizon of the capital programme exceeds the MTFS in planning terms. This will need to be aligned and factor in LGR to further demonstrate affordability of the schemes and the timings of planned capital expenditure with LGR. Whilst we do not believe LGR should hinder investment in services, there must be a transparency of the affordability of the programmes over a longer time horizon. LGR will also need to examine the potential efficiencies in service delivery and the impact on Copeland's citizens, noting that the transformative elements of the LGR programme in Cumbria are likely to occur post rather than pre-vesting day.

2. The MTFS recognises the additional costs of LGR and how these costs will be funded through the period. There is a lack of explicit information in the MTFS to recognise these additional costs.

3. The impact of MRP to finance capital expenditure (incurred in future years) will be significant given the scale of the capital programme relative to core spending power and compensating 'additional income / savings. This should be made clear with scenarios factored in and adequate risk management to control these costs.

4. In the build up to Local Government Reform, the Council should consider collaborative working with future Councils included within the new East/West proposed structures. This will provide more capacity to manage reform and ease the process.

5. The Council should how the increased funding gap projected in adverse scenarios around the fair funding review and business rates reform, could be mitigated by additional prioritised savings.

Recommendations on strengthening financial governance and oversight

1. Members must be aware of the financial challenges and the impending challenges of implementing Local Government Reform. Members have been engaged and this should continue to be so.

2. CIPFA supports Grant Thornton’s statutory recommendations made as part of the 2017/18 audit that robust arrangements must be put in place to address the backlog of production of the Statement of Accounts 2018/19, 2019/20 and 2020/21 financial statements, which must meet statutory requirements and international financial reporting standards. Also previously, the lead auditor did not present the Statutory recommendations. We would recommend going forward the auditors, in the interest of governance and independence are present to make reports to full Council.

3. Internal Audit plays a key role in the assessment of the control environment within the Council. Responsibility for the Internal Audit Service sits with the Director of Corporate Finance as reported to the Audit Committee on 7th November 2019. CIPFA supports Grant Thornton’s recommendation made as part of the 2017/18 audit that there is a review of Internal Audit. The Director of Corporate Finance having the responsibility for Internal Audit and the finance function is not reflective of good governance/best practice. CIPFA recommends a segregation of these roles.

4. The s.151 Officer produce a detailed and considered action plan which aims to achieve sound financial management across the Council - CIPFA understands this is being produced. This was included in response to the Section 24 recommendation. These plans have been incorporated by the executive team into a clear annual governance statement for 2018/19 and 2019/20, the 2020-21 annual governance statement will need to be updated when the financial statements have been produced.

2. Purpose of this report

On 24 June 2021, DLUHC commissioned CIPFA to undertake an independent and detailed financial assurance review of Copeland Borough Council. The aims of the review are:

- To provide an assessment of the Council's financial management and management of risk, deliverability of savings plans, and efficiency in delivering services.
- To provide assurance that, in response to the seeking of exceptional financial support of £1.5m for 2021/22, the Council is taking appropriate steps to improve its financial sustainability.
- To provide support to Copeland Borough Council in the form of recommendations and performance requirements to ensure they achieve this objective.

This report sets out the findings of the review undertaken by CIPFA.

- Part 3 outlines why a capital directive was requested.
- Parts 4 and 5 review the finances of the Council and its approach to financial management.
- Part 6 examines the Council's assets and potential disposal opportunities
- Part 7 provides a potential roadmap for managing the issues stemming from the capitalisation direction.

2.1 Methods used

Data collection was undertaken by CIPFA with support from Peopletoo between 5 July and 6 August 2021. Data collection involved the following methods:

- **Semi-structured interviews.** On-line interviews were conducted with the participants as set out in Appendix 1.
- **Document review.** The Council provided documents and working papers on key financial and non-financial issues – see Appendix 1.
- **Benchmarking.** A comparison of Copeland Borough Council and other statistical neighbour Councils

Analysis involved a triangulation of data from the different sources, and a sensitivity analysis and comparative analysis of the Council's finances.

2.2 Scope of the review

This report is based on the fieldwork completed within the five-week timeframe for the review. It was not a comprehensive audit of the Council's finances. As a consequence, the conclusions do not constitute an opinion on the status of the Council's financial accounts.

The report focuses on what is required to address the financial challenges facing the Council. It does not seek to provide an in-depth assessment of how the Council reached its current financial position or attribute the set of circumstances for the actions that led the Council to having to seek Exceptional Financial Support.

3. Background

3.1 The structure of the Council and how it operates

The Borough of Copeland is a local government district and borough in western Cumbria, England. Its council is based in Whitehaven. It was formed on 1 April 1974 by the merger of the Borough of Whitehaven, Ennerdale Rural District and Millom Rural District. Copeland borough is one of six boroughs that make up Cumbria: the third largest county in the UK by area, yet one of the most sparsely populated.

Copeland is a district council in the Northwest of England within the historic County of Cumbria covering approximately 282 square miles and is neighboured by the districts of Barrow-in-Furness and Allerdale. The Council underwent a boundary review in 2017, reducing from 25 wards to 17, and from 51 Councillors to 33 – these changes were introduced in 2019. The Council is currently no-overall control, with 17 Labour Councillors, 11 Conservative and 5 Independent, it is led by the directly elected Mayor Mike Starkie.

The Council has a Mayoral and Executive style decision-making structure. The Council has one main Overview and Scrutiny Committee consisting of 13 councillors, which meet regularly to consider performance and portfolio reports. There are a total of 33 councillors and the political make-up of the Council, following the 2021 local borough elections, is shown in the table below.

	Councillors
Labour	17
Conservative	11
Independent	5
Total Councillors	**33**

The Council is managed by a Chief Executive, supported by an Executive Management Team of 2 Executive Directors. It has 230 fulltime equivalent employees. Copeland Borough Council has a small finance team. Due to the geography and competitive job market, this has led to historic recruitment, retention and key personnel risks.

The recruitment and retention of skilled and qualified finance staff in the locality has been an ongoing and longstanding issue for the Council, primarily due to the neighbouring Sellafield Ltd and the Nuclear Decommissioning Authority offering more favourable terms and conditions. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. Whilst the Council made progress in appointing permanent finance staff in 2018, the Finance department lacked key local government financial expertise and experience in producing the more complex areas of a set of local authority financial statements. These roles are key to the department due to the technical accounting expertise required.

The economy of Copeland is highly dependent on Sellafield Ltd as the largest employer and NNDR rates payer in the region. In 2016/17, Copeland had 36,000 jobs in the local economy, the majority of which (54.9 per cent) were supported by Sellafield Ltd.

Copeland has reduced in net budget by 30% since 2010. Copeland requested exceptional financial support from DLUHC in 2020. DLUHC indicated that in-principle exceptional financial support in the form of a capitalisation direction of £1.5m would be granted in 21/22 subject to this review would be provided to Copeland.

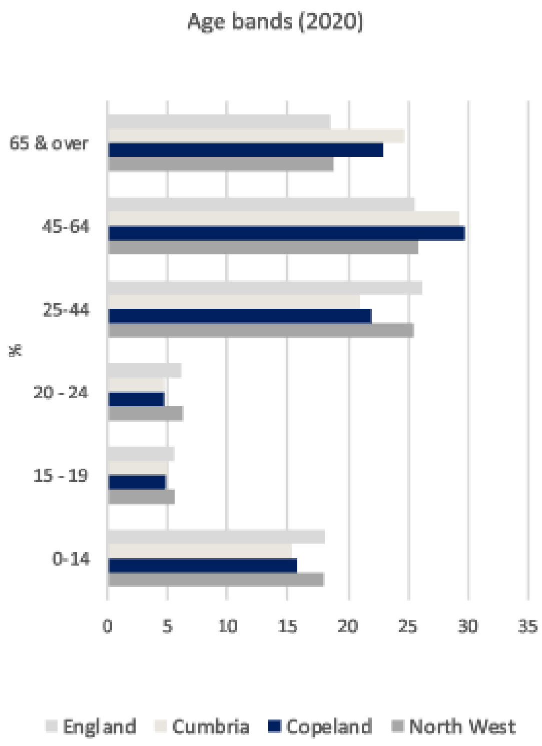
Key Statistical Landscape

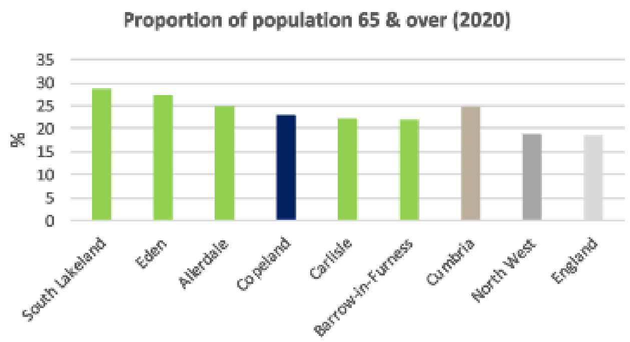
Age Profile

The ‘Age bands’ bar chart shows the proportion of each age band within Copeland, benchmarked against the Cumbria, Northwest and England averages.

Copeland has lower proportions of residents aged 0-14, 15-19, 20-24- and 25–44-year-olds relative to the Northwest and England averages.

Copeland has higher than the average proportions of residents aged 45-64 and 65 & over compared Northwest and England, and the 4th highest proportion in compared to the other districts within Cumbria.



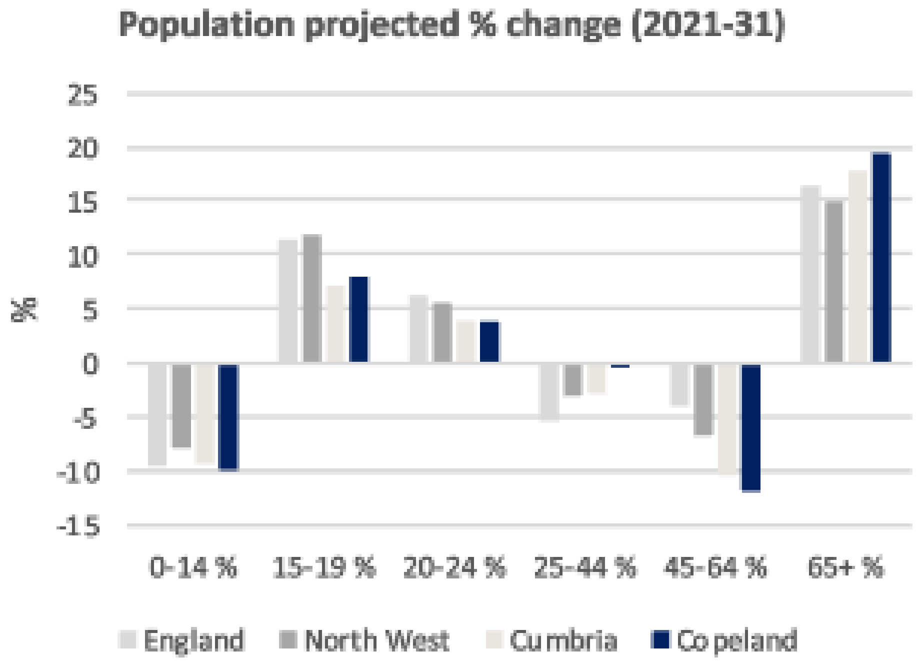


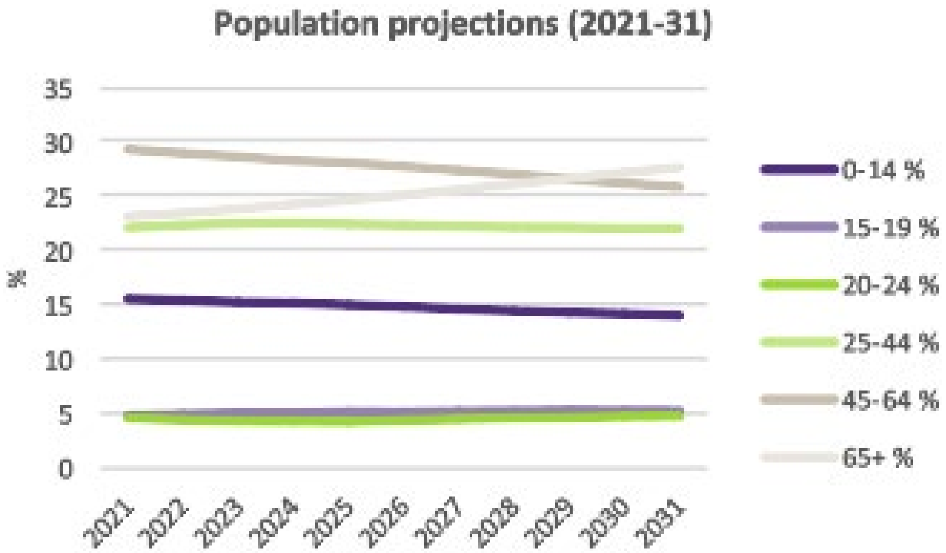
Population projections

The ‘Population projections (2021-31)’ shows the forecast % change across population bands,

Copeland is projected to see a relative decline in % of resident population aged 0-14.

Copeland is projected to see a relative increase in % of resident population 65 & over, higher the Cumbria, North West and England averages.





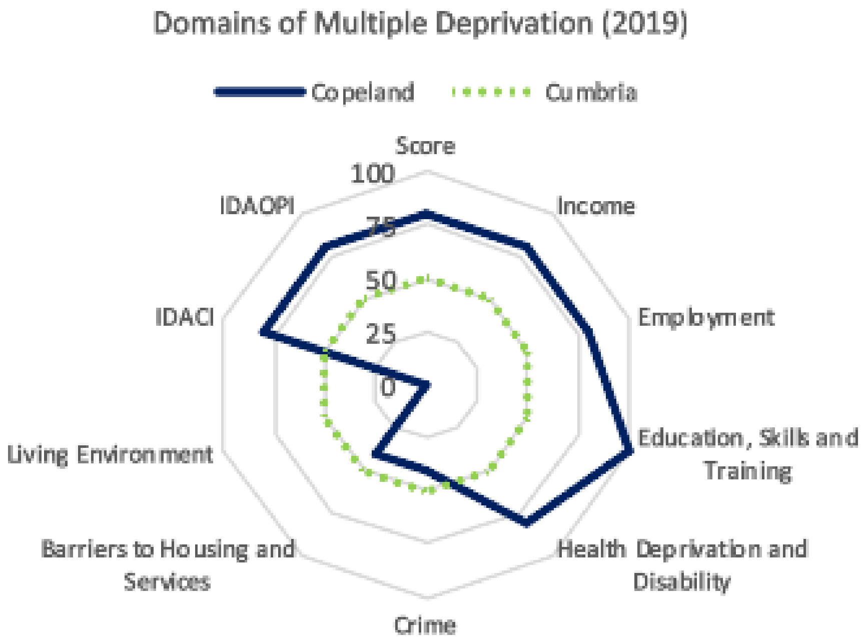
Deprivation

Copeland was the 2nd most deprived Cumbrian district, it has become much less deprived relative to other local authorities since 2015 (moving from the 22nd percentile in 2015 to the 27th percentile in 2019)[1]. suggesting that between 2015 and 2019, Copeland has become much less deprived relative to authorities nationally.

The 'Domains of Multiple Deprivation (2019)' radar chart shows the relative levels of deprivation within Copeland compared to the other Cumbria districts.

Copeland has relatively high levels of deprivation compared to other districts within Cumbria with 6 domains scoring above the 75th percentile.

Benchmarked against the other Cumbria districts, Copeland also scores above the 75th percentile.



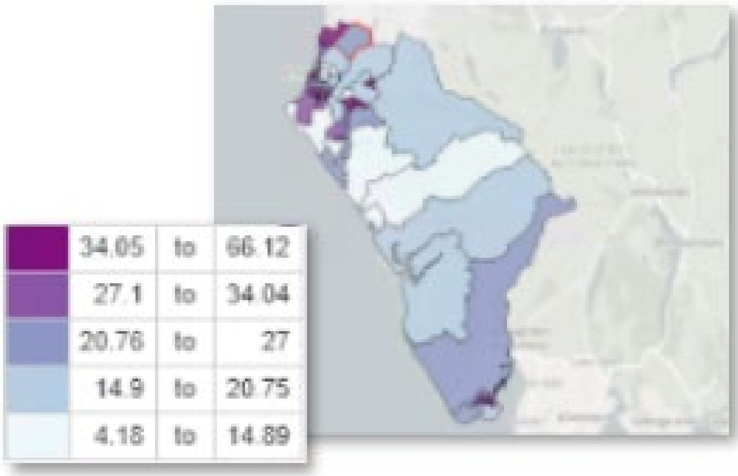
Local level deprivation

The localised map shows the relative variance of the overall deprivation score across Copeland. Those areas with darker shading indicate areas with higher levels of deprivation.

- Those areas with the highest levels of deprivation are located mainly to the Northeast along the coast.

[1] Source: English Indices of Deprivation (IoD)

Deprivation: Overall Score (2019)



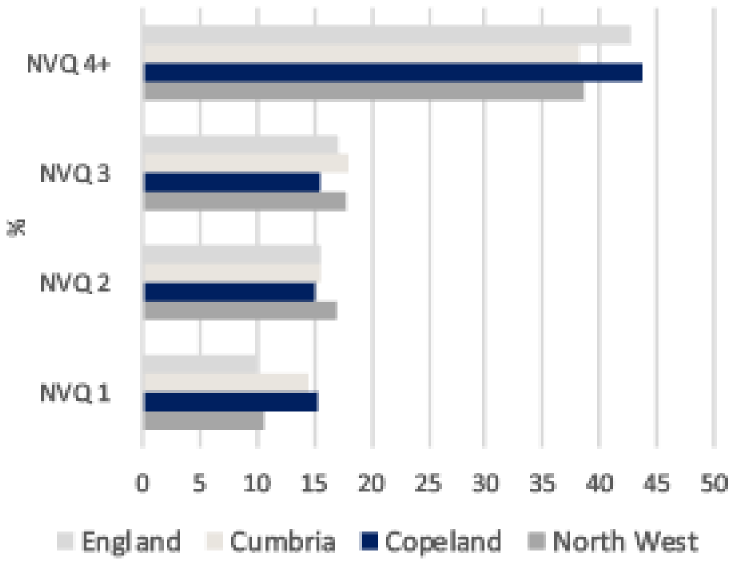
Skills

The ‘Skill’ shows the average level of qualification across residents within Copeland benchmarked against Cumbria, North West and England.

Compared to Cumbria, the North and England averages, Copeland has proportionately higher levels of residents with NVQ1.

Benchmarked against the same areas, Copeland also has proportionately higher levels of residents with NVQ4 and above qualifications.

Skills (aged 16-64)

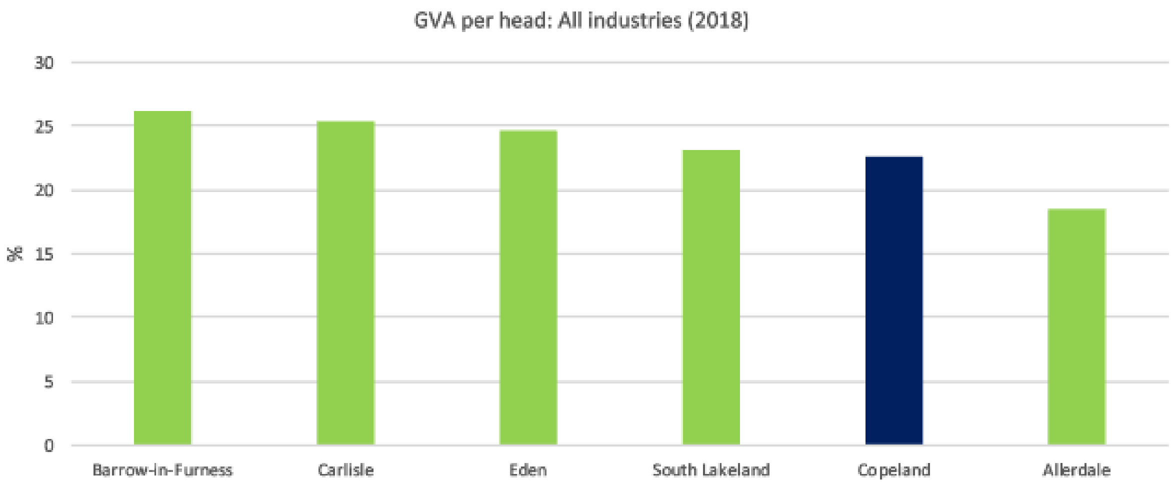


GVA per head

The ‘GVA per head’ bar charts shows the £ per head across the districts within Cumbria.

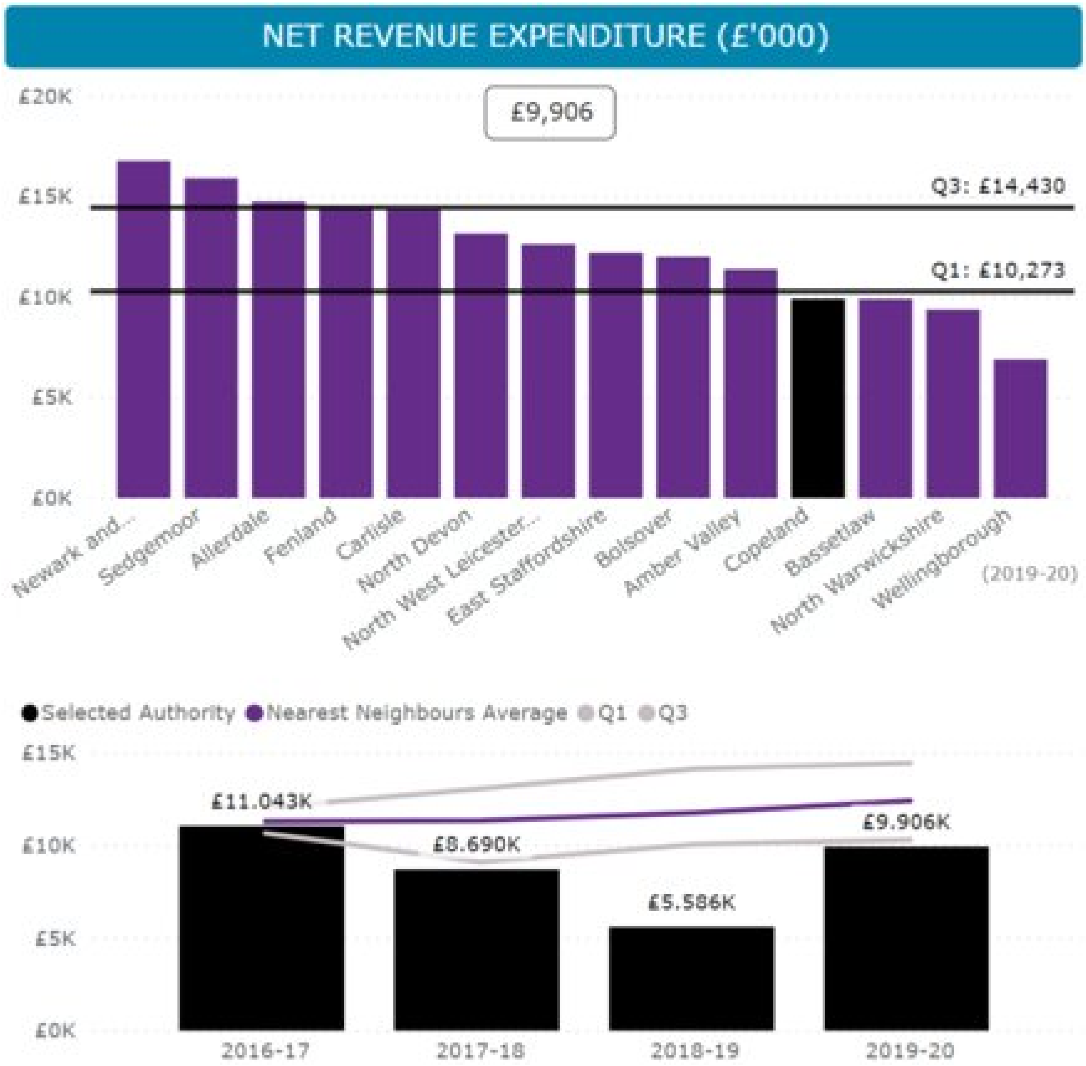
Copeland is ranked 5 out of 6 districts with a GVA per head of 22.59.

Barrow-in-Furness, ranked first, has a GVA per head of 26.17, and Allerdale, ranked sixth have a value of 18.51.



Overall Council spending is low compared to similar authorities as shown in figure 1.

Figure 1: A comparison of net revenue expenditure in 2019-20



Source: CIPFA analysis of RO data

3.3 Past performance

Copeland Borough Council have faced several financial challenges in recent years. The Council faced a successful business rate appeal from Sellafield in 2015 which resulted in substantial losses of £13m per annum from 2016-17 yet Sellafield remains the most significant business generating 75% of business rates. The dependency on Sellafield for business rates is creating substantial risk for the Council.

The Council has produced late accounts for audit since 2015/16. The 2017/18 (year of the cyber-attack) accounts were provided for audit on 1 February 2019, somewhat later than the statutory deadline of 31 May 2018. The accounts were not fully supported by working papers and contained numerous errors, including two material matters regarding buildings' valuation and expenditure cut off, which resulted in limitation of scope related qualifications in the 2017/18 audit report opinion.

The Council also experienced a devastating cyber-attack in 2017 that brought down key systems and brought business activity to a standstill. At the time, the severity of the attack was recognised by DLUHC and the National Cyber Security Centre and support in the form of a capitalisation direction of approximately £2m was provided by the DLUHC'. These issues have significantly delayed the preparation of the Statement of Accounts and have impacted on the Council's operations. The cyber-attack disabled both financial and other critical service IT systems creating long-lasting effects on the Council's ability to function properly.

This was a zero-day exploit, meaning that the ransomware attacked an unknown security vulnerability not previously identified by software vendors. As a result of this attack from September 2017 to November 2018 there was no budget monitoring in place. Members received no financial information on which to base informed decisions, and therefore the 2018/19 budget setting process was not based on the most up to date information. There is a risk therefore that the 2018/19 budget was based on flawed assumptions, or pressures which had not been considered. For a very small Council, the task of recovery should not be underestimated. The National Cyber Security Centre, amongst other national organisations, have recognised the severity of the attack and the Council's IT infrastructure has seen substantial improvements under the guidance of a highly experienced Head of IT.

The Council has been issued with a statutory Section 24 report by their external auditors, which is extremely rare for an auditor to issue. The reasons for making statutory recommendations arise from these circumstances identified and are underlined in the 2017/18 qualified accounts and qualified adverse VFM conclusion, given in October 2020. Grant Thornton, Copeland's auditors, were not satisfied that the Council has put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in informed decision-making regarding scrutiny and content of the MTFS, capacity within the finance team, delays in producing statutory accounts and material errors within the draft accounts.

The Council has been discussing its financial pressures with DLUHC on and off for the last 4 years and has seen new financial challenges brought about by COVID. Copeland have set a budget for 2021/22 with a need to draw down £1.845m in earmarked reserves but without having to issue a S114 Notice. Balancing the budget is dependent on approval of the capitalisation directive requested by Copeland in CIPFA's view. The budget setting process has set out Copeland's key priorities to fund statutory commitments with discretionary services resourced through income and grants.

The Council's current Medium Term Financial Strategy covers 2021 to 2023.

Figure 2: Projections for the refreshed MTFS including the 2021/22 budget year

	2021/22 £'000	2022/23 £'000
2020/21 Base Budget (after one off items removed)	9,532	9,532
Pay, Price and Contract Inflation	340	680
Pressures	1,974	1,244
Other items	125	125
Efficiencies and Use of Reserves	(3,345)	135
Base Budget	**8,626**	**11,716**
Revised Sources of Finance Total	**(8,626)**	**(7,455)**

Source: Copeland Borough Council

Figure 3: Efficiencies and Use of reserves

Efficiencies and Use of Reserves	2021/22 £'000	2022/23 £'000
Capitalisation Directive	(1,500)	135
Planned use of EMRs	(1,845)	
Efficiencies from Efficiency Plan	**(3,345)**	**135**

Source: Copeland Borough Council

Capital Investment

The Council has an investment programme. This has included significant expenditure in the following areas:

- **Leconfield Redevelopment & Expansion (£5,000k in 2021/22 & £3,000k in 2022/23)** £5,000k to support the development of the Campus by either immediate investment to assist in kick-starting the Campus development, or to match fund either private or public funding in 21/22 or future financial years as required, and £3,000k to acquire expansion land to allow the Campus to grow. This is the key anchor project to deliver economic regeneration for Copeland and deliver on levelling up in the area.
- **Vehicle Replacements (£2,500k in 2022/23):** The Council currently leases the majority of its waste and parks vehicles. The contract ends in October 2022 and, subject to a value for money business case, there may be a case to purchase rather than lease vehicles.

The Capital programme also contains the **Capitalisation Directive (£1,500k in 2021/22):** Approval from Government to support the 2021/22 revenue budget with borrowing; this will be over a 20-year period.

Council Borrowing

Copeland currently has a £5m level of debt – however this is expected to increase to £26.783m by the 23/24 financial year. Given the time horizon of the MTFS there is a concern around affordability and ability to service and increase in debt. It is clear in the MTFS that affordability of the schemes funded by borrowing is paramount and that the costs of borrowing having to be met from reduced costs or increased income.

Figure 4: Borrowing at Copeland Council, 2019 to 2023/24

£000's	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
External Debt					
Debt at 1 April	5,000	5,000	5,000	5,000	5,000
Expected change in Debt	0	-	-	12,521	21,783
Other long-term liabilities (OLTL)	4,984	0	0	0	0
Actual gross debt at 31 March	**9,984**	**5,000**	**5,000**	**17,521**	**26,783**
The Capital Financing Requirement	2,995	4,045	14,364	24,864	29,864
(Under) /over borrowing	**6,989**	**955**	**-9,364**	**-7,343**	**-3,081**

Source: Copeland Borough Council

The Treasury Management strategies, capital strategies and accompanying reports prepared as part of the Council's annual budget exercise provide some explanation of the risks to revenue and reserves because of the capital expenditure plans which have been approved.

In particular, the ratio of financing costs is estimated to substantially increase from 1% to 15% over this period.

Figure 5: Financing cost ratio at Copeland Council, 2019 to 2023/24

%	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Ratio	1%	2%	7%	12%	15%

Source: Copeland Borough Council

There is some information around the council's MRP policy within its Treasury Management Strategy other than it is on an "asset life" method – MRP will be based on the estimated life of the assets, in accordance with the regulations. This option provides for a reduction in the borrowing need over the asset's estimated life.

Figure 6: Capital Financing Requirement Copeland Council, 2019 to 2023/24

£000's	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Capital Financing Requirement					
Total CFR	**2,995**	**4,045**	**14,364**	**24,864**	**29,864**
Movement in CFR	0	1,050	10,319	10,500	5,000
Movement in CFR represented by					
Net financing need for the year (above)	120	1,212	10,894	11,495	6,195
Less MRP and other financing movements	-120	-162	-575	-995	-1195
Movement in CFR	**-**	**1,050**	**10,319**	**10,500**	**5,000**

**Note the MRP will include finance lease annual principal payments*

Source: Copeland Borough Council

Noting the substantial increase in their capital financing requirement and on-going assessment of affordability and impact should be monitored. Whilst the capital programme borrowing finance is intended to be affordable as set out in the MTFS i.e funded from reduced costs or increased income and may be matched with levelling up and town bids – there is an estimated increase in Minimum Revenue Pressure to over £1m in 23/24, this is currently not explicitly set out in the MTFS; this is because the costs are offset with increased income/reduced costs. The updated MTFS should go beyond 2022/23, recognising that the Council will cease to exist beyond 31st March 2023, and explicitly identify the costs or borrowing and funding sources.

Figure 7: Core balances and reserves forecast Copeland Council, 2019 to 2023/24

Year End Resources	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Fund balances / reserves	11.92	8.16	6.90	2.72	-1.54
Capital receipts	4.39	2.60	0.47	-	-
Provisions	1.56	1.56	1.56	1.56	1.56
Other					
Total core funds	**17.26**	**12.32**	**8.93**	**4.28**	**0.02**
(Under) / Over borrowing	2.64	2.64	-7.68	-18.18	-23.18
Working capital	1.38	1.38	1.38	1.38	1.38
Expected investments	**21.28**	**16.34**	**2.63**	**-12.52**	**-21.78**

Source: Copeland Borough Council

Conclusion

As at the point of the July 2021 Annual Treasury Report – all capital expenditure had been funded through 'internal resources' such as capital receipts. The future borrowing plans of the Council are planned to be funded by savings and additional income – appropriate risk management must be put in place and contingency should these benefits or additional income not be realised and further details provided on how this will be managed and the volatility of such risks.

Recommendation – Introduce scenario planning for interest rates to capture affordability of borrowing for the planned capital programme.

4. The Financial Position

4.1 Financial Budget for 2021-22

In March 2021, the Council set a balanced budget for 2021-22 of £8.6 million, based on the conditional approval from DLUHC for the Council to fund £1.5 million of revenue expenditure from capital. The report by the s.151 Officer does make clear in the budget papers that the implications of the capitalisation direction have been factored into the Capital Strategy and the proposed Capital Programme.

The budget for 2021-22 included additional pressures of £2,439m. These pressures included "340k of standard pay, price and contract inflation. £19,740k of service-based pressures and an allocation of £180k to restore reserve levels to £2m. A pressure of £125k has been agreed within the budget for the costs of Local Government although at the time of writing, Copeland's contribution is likely to be in the region of £1.2m.

A broad high-level financial sustainability scenario planning for the Council projects reserve levels by 22/23 is estimated to be £2,300k – £300k above its set minimum level of reserves.

Figure 8: Reserves Scenario planning Copeland Council, 2020 to 2022/23

£'000	2020/21	2021/22	2022/23
Current	(8,018)	(6,560)	(2,299)
Best		(7,917)	(3,561)
Worst		(5,797)	(1,514)
Min Reserves	*(2,000)*	*(2,000)*	*(2,000)*

Source: Copeland Borough Council

There are a number of factors that could yet add to the above cost pressures facing the Council in 2021-22: -

- There is a lack of explicit information in the MTFS to recognise the additional costs of MRP to finance capital expenditure when it will be incurred in future years which will be significant given the scale of the capital programme relative to core spending power and compensating 'additional income / savings. This should be made clear with scenarios factored and risk management to control these costs.
- Interest rate risks – for future years in an expanded MTFS, if interest rates rise then the cost of moving to longer term rates will be higher, depending on variable rate exposure

The budget approved by the Council in March 2021 relied on reserves of £1.845 million to balance.

Conclusion

In conclusion, the scale of the financial challenge facing the Council in 2021-22 is considerable. The planned use of reserves demonstrates the high level of risks to the budget. Copeland is heading rapidly towards its minimum level of reserves and an expectation internally of issuing a Section 114 notice.

4.2 Financial resilience in the medium term

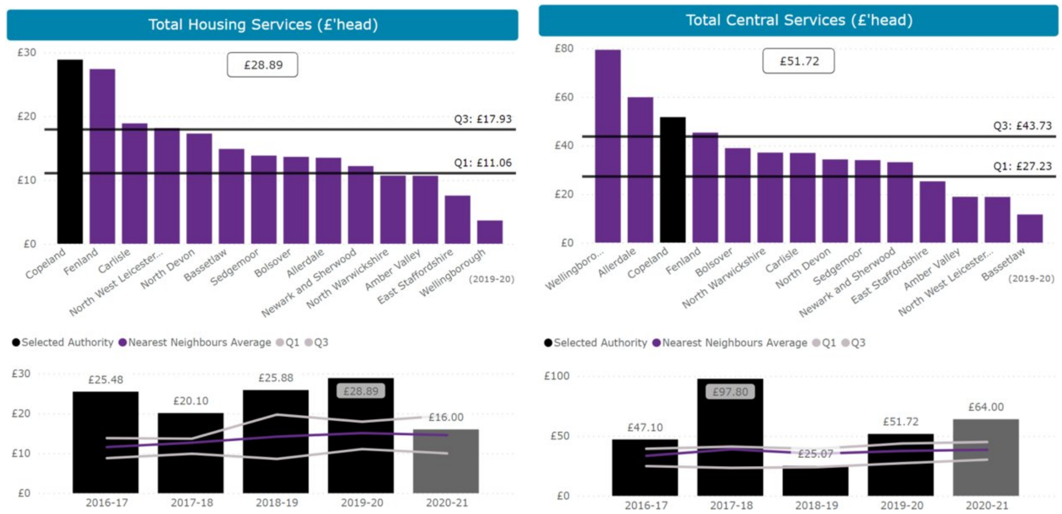
The medium-term financial strategy and associated forecasts of expenditure and income for the years 2021-22 and 2022-23 were approved by Council on 2 March 2021. This section of the report examines the adequacy of the Council's medium-term plans and what is required to strengthen its financial resilience. The table below shows the headline figures from the Medium-Term Financial Strategy

£ millions	**2021-22**	**2022-23**
Base budget	£9,532	£9,532
Pressures	£2,439	£2.049
Capitalisation and use of reserves	(£3,345)	£0.125
Total Budget Requirement	**£8,626**	**£11,716**
Projected funding	(£8,626)	(£7,455)
(surplus)/Deficit	**£0**	**£4,261**

There are areas where the Council appears to be high spending relative to other councils, this however needs to be set in the context of the specific environment and priorities of the local authority. The one key area where for example savings might be feasible is for housing services and central services where Copeland spends significantly above most similar councils.

As set out earlier in this report the Copeland population is of poor health, old age. The Housing service includes social prescribing that deals with people with not just housing options but also domestic abuse, social inclusion, social prescribing, and financial resilience; much of these are externally funded but the funding may not appear in the benchmarking data, these costs may also increase post COVID. Context is therefore important however there may be opportunities for savings from investigating behind the benchmarking data

Figure 9: A comparison of spend per capita on Housing, and Central services



Source: CIPFA

The Council should consider how it could make more use of detailed benchmarking information to challenge services, generate lines of enquiry for potential cost savings and income generation. Used correctly, benchmarking based service reviews can overcome challenges around data quality and be very useful in focusing effort and identifying short term opportunities, as well as contributing to the development of service transformation initiatives, delivering benefits over the medium to long term. Part of this process should be to help identify sources of potential best practice within other councils, prompting useful conversations and learning opportunities. However the geographic location of Copeland may cause limitations on the use of the data and should be taken into account when used.

4.3 Capital Programme

Copeland Council have a Capital Investment Strategy which sets out the Council's ambitions in the short, medium and long term and includes:

I. Strategic Ambition;

II. Current capital priorities;

III. Available and Potential investment levels;

IV. Alternative sources of funding capital expenditure;

V. Prudential Borrowing; and

VI. The proposed Capital Programme for the period 2021/22 to 2025/26.

The reworked Corporate Strategy 2020-24 was approved by Council on 15th December 2020. The Council has set minimum working capital balance of c£15m, this includes £5m of external debt raised in 2003. Existing capital schemes funded from borrowing is c£2m as set out in the capital programme

Figure 11: Proposed Capital Programme for the period 2021/22 to 2025/26

Proposed Capital Programme for the period 2021/22 to 2025/26

Directorate / Funding Source	2021/22	2022/23	2023/24	2024/25	2025/26	Total	Usable Capital Receipts	Capital grants / Contributions	Revenue	Borrowing	Total
Accommodation Strategy	397					**397**	0	0	0	397	**397**
Whitehaven Cemetery Extension	173					**173**	96	77	0	0	**173**
Bereavement Services	403					**403**	403	0	0	0	**403**
Disabled Facilities Grants	600					**600**	0	600	0	0	**600**
Town Centre Regeneration	1,082					**1,082**	670	412	0	0	**1,082**
Development (incl LEP FHSF external funding)	738					**738**	738	0	0	0	**738**
Coastal Programme (Phase 1&2)	1,696					**1,696**	0	1,696	0	0	**1,696**
Beacon Virtual Museum	142					**142**	0	142	0	0	**142**
IT Infrastructure	922					**922**	0	0	0	922	**922**
Whitehaven Activity Centre	1,198					**1,198**	0	1,000	198	0	**1,198**
Cleator Moor Activity Centre - removed now part of Towns Fund	0					**0**	0	0	0	0	**0**
St Bees Ramp	300					**300**	125	175	0	0	**300**
Capital Investments (was Commercial Investments)	2,500	5,000	5,000	5,000	5,000	**22,500**	0	0	0	22,500	**22,500**
Accountable Body - Coastal Activity Centre (Council Sep 2019)	1,423					**1,423**	0	1,423	0	0	**1,423**
Towns Fund (Council Sep 2020)	0					**0**	0	0	0	0	**0**
Accountable Body - Whitehaven Harbour Flood Defence Works - Council Dec 2020	50					**50**	0	50	0	0	**50**
Capitalisation Flexibility	100					**100**	100	0	0	0	**100**
ISH Project (Council July 2020)	0					**0**	0	0	0	0	**0**
New schemes:											
Leconfield Redevelopment	5,000					**5,000**	0	0	0	5,000	**5,000**
Leconfield Expansion		3,000				**3,000**	0	0	0	3,000	**3,000**
Vehicle Replacements		2,500				**2,500**	0	0	2,500	0	**2,500**
Capitalisation Directive	1,500					**1,500**	0	0	0	1,500	**1,500**
Total	**18,224**	**10,500**	**5,000**	**5,000**	**5,000**	**43,724**	**2,132**	**5,575**	**2,698**	**33,319**	**43,724**

Source: Copeland Borough Council

The above extract is the proposed Capital Programme for the period of 2021/22 to 2025/26. The programme is extremely ambitious and contains £33m in proposed borrowing for the Council. The Council is in significant financial difficulties Copeland have made clear in 4.4 of the Council reports states “Prudential borrowing will only be used where there is a clear financial case, such as major regeneration schemes which provide a return that meets the borrowing costs, “invest to save” projects, or “spend to earn” schemes. The principle of affordability is therefore a key consideration.”

4.5 Conclusions

The Council’s £33m planned borrowing (which will be funded by reduced costs or increased income is planned in some cases to be match funded, levelling up and town deals) – will need to be refreshed and aligned with a revised MTFS to capture the affordability of these programmes.

5. The Council's approach to financial management

5.1 Adequacy of existing financial management practices

Annual Governance Statement

The 2018/19 Annual Governance Statement for Copeland Borough Council was drafted in 2018-19 It concluded that:

Figure 12: Annual Governance Statement 2018-19
• *The Corporate Leadership Team and relevant Officers have reviewed the evidence outlined above and concluded that due to the governance issues set out in this report, mainly;* • *development of alternative controls until 'normal' controls were re-established following the cyber-attack; a "reasonable assurance" internal audit opinion;* • *Adverse conclusion from the External Auditor on Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources in 2017/18;* • *Restoration of budget monitoring arrangements following the cyber-attack from November 2018;* • *Progress with implementing the recommendations raised by the External Auditor on Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources in 2017/18.* • *As a result of the governance items raised above 'partial assurance' can be provided on the governance arrangements in place in 2018/19*
Source: Copeland Borough Council

The statement provided an update on actions to improve governance identified in the previous statement, however a number of actions are only partially completed including:

- Review all Human Resources Policies to ensure they are all up to date and reflect current practice.

- Cyber Attack – 27 key recommendations were produced following a series of feedback sessions from a range of key stakeholders at all levels of the organisation and the Business Continuity Working Group which was formed to respond to the Cyberattack.

- Delay in Production of Final Accounts – Ensure the finance team is fit for purpose with the aim of producing the 2019/20 financial statements on time.

- Include scenario planning in the Medium-Term Financial Strategy

- Robust risk management around key schemes and savings plans.

The Council has not prepared an Annual Governance Statement for 2020-21 but recently approved its 2019-20 statement; this sets out the current governance arrangements. Along with the 2018/19 and 2019/20 Annual Governance Statements there is an action plan setting out how it seeks to remedy any deficiencies in governance. This to some extent reflects the fact that the Council is not able to close its accounts in 2020-21. Nevertheless, this means that there is no clear statement from the Council on its current governance arrangements nor is there an action plan setting out how it seeks to remedy any deficiencies in governance. It is therefore important that an Annual Governance Statement is produced for 2020-21.

Audit Opinions

The Council's 2017/18 audit reports highlight the weaknesses in financial management across the Council during the year of the cyber-attack.

The Council's External Auditors have issued a Section 24 Statutory Recommendation reports containing a total of 19 recommendations concerning:

- Auditors not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources
- because of weaknesses in informed decision-making regarding scrutiny and content of the Medium-Term Financial Plan inadequate arrangements and capacity at the Council to prepare reliable financial statements and working papers and concerns regarding the Council's financial sustainability and levels of reserves.

The external auditors commented that a further 22 recommendations were issued as a follow up of the previous year. 11 of which had not been followed up

Implementation of External and Internal Audit and Annual Governance Statement recommendations are monitored through the Council's performance management software, which enables all managers to update progress with implementation. This is then collated and reported to the Corporate Leadership Team and the Audit Committee. The cyber-attack in August 2017 meant many recommendations could not be implemented, due to system/technical reasons and management time focussed on the restoration and recovery process. Areas such as finance did also not have the resources available.

A number of Value for Money recommendations were made as part of statutory report issued in February 2021 included in Appendix 4.

Risk Management

The Council does maintain a risk register which updates the Audit and Governance Committee regularly on significant changes to key risk areas for the Council.

It is essential that the organisation both at Executive and Member level has a clear understanding of the risks that it faces at a time of unprecedented financial challenge. This is even more important given the additional risk posed by the impending transformation of Council structures.

Internal Audit

Internal Audit plays a key role in the assessment of the control environment within the Council. Responsibility for the Internal Audit Service is with the Director of Financial Resources as reported to the Audit Committee on 7th November 2019.

The Director of Corporate Finance having the responsibility for Internal Audit and the Finance function is not good governance and does not provide an independent assessment of the Council's internal control framework. CIPFA recommends a segregation of these roles.

Conclusion

The s.151 Officer has produced a detailed and considered action plan which aims to achieve sound financial management across the Council. This was included in response to the Section 24 recommendation. These plans have been incorporated by the executive team into a clear annual governance statement for 2018/19 and 2019/20, the 2020-21 annual governance statement will need to be updated when the financial statements have been produced.

5.3 The capacity of the Council to deliver the transformational changes needed to ensure financial resilience and Local Government Reform

Progress is dependent on two factors:

- There needs to be a detailed action plan with clear milestones that is agreed by Members and Executive Directors so that it can be tracked.
- The Finance team requires the expertise and resources needed to support the Executive Directives in implementation.

Developing a Clear Action Plan

The Council will need to refresh the MTFS to balance the budget to the year when Local Government reform is expected to take place. The current 1-year MTFS is balanced between the use of reserves and the capitalisation direction. A new longer term MTFS will need to be balanced over a longer time horizon taking the Council into LGR with a plan of efficiencies, commercialisation of services as per the approach outlined in the Council's commercial strategy.

The Council's £33m planned borrowing (which will be funded by reduced costs or increased income is planned in some cases to be match funded, levelling up and town deals) – will need to be refreshed and aligned with a revised MTFS to capture the affordability of these programmes. Currently the time horizon of the capital programme far outstrips the MTFS. This will need to be aligned and factor in LGR to assess the affordability of the schemes and the timings of planned capital expenditure with LGR. Whilst we do not believe LGR should hinder investment in services, there must be a transparency of the affordability of the programmes over a longer time horizon.

Building the expertise and capacity of the Finance team

Whilst the Council made progress in appointing permanent finance staff in 2018, the Finance department lacked key local government financial expertise and experience in producing the more complex areas of a set of local authority financial statements. These roles are key to the department due to the technical accounting expertise required. The recruitment of the permanent section 151 officer in 2018 is a positive following a succession of interim section 151 officers for almost a decade. Further appointments on a permanent basis and development of existing staff in the finance team has strengthened the finance team capacity.

5.4 Conclusions

Financial management in the Council has been historically weak and addressing this has been impacted and impaired by the 2017 cyber-attack, progress has been made since this and this has been dependent on the commitment and expertise of the s.151 Officer and his team. There is a commitment from all those interviewed to support this team in delivering changes required.

It will be important, therefore, that there are clear milestones on what needs to be delivered by when and that these are reviewed and evaluated by an independent external organisation.

6. Council assets and other commercial interests

6.1 Review of the council's current asset position

Copeland is in an area of market failure. The asset portfolio largely consists of operational assets, a small investment portfolio and some surplus assets (Assets no longer being used for service delivery). The table below summarises the value of these assets:

Asset	Value £m	Comments
Operational Assets	29.76	47 assets including the Copeland Centre Council HQ, sports centre, crematorium, depots, car parks, community centres and heritage centre. Sports centre valued at replacement cost not market value
Surplus Assets	2.12	47 assets including land, garage sites, grazing, retail. Largest sites by value are Heather Bank £500k, former rail yard at Whitehaven £875k which have development possibilities – this has very poor access over a weak bridge.
Investment Portfolio	6.98	66 assets including Leconfield Industrial Estate £1.6m, Ginns Depot Dev't Site £800k
Total	**38.86**	

In 2020 the Council terminated its PFI contract for the Copeland Centre, this was a landmark transaction for the Council. This was an early PFI contract that no longer represented value for money for the public sector, its termination allowed the Council to finally refurbish the asset and sub-let 3 floors to Sellafield; removing an expensive cost and generating additional income.

The operational portfolio has an asset value of £29.76m generates an income of £807k pa of which £622k is from sub-letting 3 floors of the Copeland Centre to Sellafield. A portion of the operational asset value is based on replacement value of assets, for example the sports centres, and therefore the market value in these instances is likely to be significantly less.

The Investment Portfolio is valued at £6.98m and provides an income of £435k pa or 6%. The largest portion of this income, 45%, is made up of the income from the Leconfield industrial estate which was acquired with funding from the Growth Deal scheme.

Realisation of capital receipts from disposal of assets will be mostly derived through disposal of surplus land and development land. The Leconfield Industrial Estate was acquired recently with funding from the Growth Deals scheme and was intended to form part of a project. This is an anchor regeneration project for the Borough that will stimulate economic growth for the area.

Asset values have been provided by the Council as of 31st March 2021, but external independent valuations should be commissioned to verify figures stated.

The Copeland Centre provides income of £622k from Sellafield. Although it is one of the stronger assets from an investment perspective because of the lease with Sellafield, we believe priority should be given to maximising value through the development opportunities, where the income is minimal.

In summary, the asset disposals for Copeland will be challenging as much of the value remains in land that has potential for development and will require work to be carried out on development proposals and planning

Asset	Priority	Ease of Disposal	Capital Receipt (£m)	Revenue Impact (£m)	Timing <3 yrs	Timing 4 – 5 yrs	Comments
Land at Heather Bank	1	2	0.5	0	0.5		Question on access road to be resolved
Whitehaven Rail Yard	1	2-3	0.87	0	0.87		Potential dev't site for power generation, although low interest from other developers - this has very poor access over a weak bridge.
Other Surplus	1	1-2	0.5	0	0.3	0.2	Sites include land at Newton, Kells garage, High Road, Lowca, St Bees, skate park
Ginns Depot	1	1	0.8	0	0.8		A dev't site, some interest from Aldi
Meadow Rd Indus Units	1	1	1.1	-0.07	1.1		Industrial units' sale and land adjacent, interest re sports village on 1 plot
Hensingham	1	2	0.28	0	0.28		Has had previous interest, access to be resolved
Beacon Portal	2	2	0.47	0	0.47		Funding restrictions to be reviewed, has a multitude of uses
Market Hall	2	2	0.6	0		0.6	This is a residual town centre location for the Council
Leaconfield Indus Estate	2	2-3	1.6	-0.19	TBC	1.6 TBC	Recently acquisition with funding from the LEP and CBC capital receipts
TOTALS			**6.72**	**-0.26**	**4.32**	**2.4**	

Priorities: 1 – high: 2 – medium: 3 – low

Ease of Disposal: 1 – no constraints: 2 – some constraints e.g. title, use: 3 significant constraints – planning, CPO's

The property management activities are led by the Property & Estates Manager. An Asset Management Plan is in place dated July 2019, with 8 assets having been disposed of to a value of £437k. Rent arrears appear well controlled with £131k unpaid as of June 2021. Backlog maintenance totalled £409k, the majority of which was evident at The Copeland Centre, Moresby Depot and the Crematorium.

Appendix 1 - Detailed improvement roadmap

CIPFA Capitalisation reviews – recommendation thematic analysis							
Assets	**Capitalisation**	**Commercial & borrowing**	**Governance & oversight**	**Future sustainability**	**Reserves**	**Savings & efficiencies**	**Capacity & capability**
Copeland Borough Council							
Implement Interest rate scenario planning to forecast interest rate costs in relation to forecast capital programme and monitor on on-going basis			Use integrated reporting that considers financial performance alongside service performance	Review compliance with the CIPFA Financial Management Code.	Improve the link between the savings programme and scenario planning outcomes.	Produce an outline plan to close its identified budget gap for 2022/23 immediately.	
Revise Capital Programme to re-assess affordability and consider resources and time delays from LGR.			Develop and adopt a financial performance dashboard.			Maintain at least 3 MTFS financial (taking into account LGR) planning horizon at all times. Develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility	
Align Capital programme with MTFS.			The joint position of Director of finance and responsibility for internal audit should also be reviewed.			Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.	
			An up-to-date Annual Governance Statement should be prepared			Look for opportunities to make more use of detailed benchmarking information to challenge services.	

	COPELAND BOROUGH COUNCIL	Immediately	Dec 2021	Jan 2022	Feb 2022
Leadership & Governance					
	Use integrated reporting that considers financial performance alongside service performance				
	Develop and adopt a financial performance dashboard.				
	Produce an outline plan to close its identified budget gap for 2022/23 immediately.				
	The joint position of Director of finance and responsibility for internal audit should also be reviewed.				
	An up-to-date Annual Governance Statement should be prepared				
Corporate Improvement					
	Review compliance with the CIPFA Financial Management Code.				
Financial Management & Savings					
	Maintain at least a 3-year MTFS financial planning horizon at all times (taking into account LGR). Develop savings in advance of what is required for the central MTFS scenario, in order to increase financial flexibility.				
	Use of scenario planning in the MTFS to help overcome uncertainties over future funding arrangements.				
	Look for opportunities to make more use of detailed benchmarking information to challenge services.				
	Address immediate financial governance risks – with focus on those recommendations outlined in the statutory section 24 report issued by the auditors.				
Asset Management & Capital Programme					
	Implement Interest rate scenario planning to forecast interest rate costs in relation to forecast capital programme and monitor on on-going basis				
	Revise Capital Programme to re-assess affordability and consider resources and time delays from LGR.				
	Align Capital programme with MTFS.				

Appendix 2 – List of those interviewed

Pat Graham – Chief Executive Officer

Steven Brown – Section 151 Officer

Mike Starkie - Mayor

David Cowen – Head of IT

Barbara Vernon – Head of Estates

Sarah Pemberton – Corporate Director

Janett Sinnott – Revenues Team leader

Appendix 3 – List of documents reviewed

Initial information request

A. Key Finance documents:
   1. Initial bid for Capitalisation, and any supporting papers
   2. The Revenue Budget Report 2021/22
   3. The Capital Programme 2021/22
   4. The Section 25 Statement for 2021/22
   5. Treasury Management Strategy
   6. Prudential indicators for 2020-21 and for 2021-22
   7. Out-turn Report 2018/19, 2019/20 and 2020/21
   8. Capital Out-turn Report 2018/19, 2019/20 and 2020/21
   9. Savings planned and delivered by Directorate for 2018/19, 2019/20 and 2020/21
   10. Financial statements for the Council for 2018/19
   11. Latest monitoring reports for 2021-22
   12. The Medium-Term Financial Plan
   13. Relevant reports to the Audit Committee
   14. Pension Fund report for 2018/19, 2019/20 and 2020/21
   15. Financial Regulations

Appendix 4 – Copeland Borough Council Section 24 Statutory recommendations

Figure : Copeland Borough Council Section 24 Statutory recommendations
Scenario planning and sensitivity analysis was not factored in the MTFS to aide management and member's understanding of the impact changes to assumptions could have on future budgets. – Some progress has been made around this in relation to the reserves.
The run rate and pressure on General Fund unearmarked reserves needs to be continually assessed, especially given the cumulative impact of under-delivery on saving plans.
The Council faces significant challenges to restore the financial reporting cycle to expected timescales, and to achieve earlier closedown in line with Government regulations. The lack of a timely audited outturn position and Statement of Accounts is prohibitive to management and members making fully informed decisions.
In the 2017/18 audit report relating to the year of the cyber-attack Grant Thornton have also concluded that there were weaknesses in the Council's arrangements for implementing the ICT Strategy and business continuity planning processes recommendations identified from Internal Audit Reviews, which links to the informed decision-making criteria.
Grant Thornton concluded that there were weaknesses in the Council's arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities. The LGA Peer Challenge found employees to be engaged and passionate. The organisation has recently expanded its senior management team, and this was welcomed by the workforce. The Council is committed to modernising and will need to carefully consider whether it has the capacity and skills to fulfil new initiatives including commercialisation and further digitalisation. The recent introduction of a new performance management process, known as the "5Ps" will help Copeland recognise where skills development is required through a strategic organisational development approach. It is likely that there is untapped talent amongst employees and a clearer workforce strategy will help succession planning, as well as recruitment and retention.
Source: Copeland Borough Council

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