The Chartered Institute of
Public Finance & Accountancy

Westmorland & Furness Council

External Assurance Review

December 2023

A Report by:
The Chartered Institute of Public Finance and Accountancy
December 2023

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1 Executive Summary

1.1 Summary of Findings, Issues, Evidence and Analysis

Background

Westmorland and Furness Council is a unitary authority which provides all local services within their area, replacing Cumbria County Council and the district councils of Barrow-in-Furness, Eden and South Lakeland on 1 April 2023. The last full local elections in May 2022 gave the Liberal Democrat Party 36 of the 65 councillors. The council applied for exceptional financial support for their first year of operation to cover transformation and transition costs and have received in-principle capitalisation of £26 million for the financial year 2023/24.

Westmorland and Furness has an adjusted deprivation score of 53% which is the same as the national average. It has a population of 227,100 in an area of just under 3,800 square kilometres giving it a population density of 60 people per hectare, which is significantly lower than its nearest neighbours. As at 2021/22, socio-economic indicators for education attainment, quality of life for social care users and children in care are all worse than average. Public Health measurements are all below average. Housing availability is an issue. Accessibility to employment and Business Registrations are lower than average.

Performance and legacy councils

Performance of the former councils was mixed and together their total service cost per head of population was £1173.99 compared to £1677.18 for the six other north-west unitary councils. Whilst this suggests that there is limited scope for making service cost savings, the former councils spent less than 43% of the comparable average for a grouping of Education, Social Care, Public Health and Housing services but 21% more for the grouping of Highways, Cultural, Environmental and Planning services. Reducing this latter group of services to the average cost per head could reduce costs for Westmorland and Furness by £12.1 million.

The council's progress so far

The council has recognised some of these issues and has instituted seven Integration and Improvement Programmes, that include Adult Social Care, Children's Social care, Planning and Waste. Early performance data for the new council appears favourable and it appears that the council has done well to maintain key deliverables, despite the complexities associated with the formation of a single authority.

However, the council needs to do more work to get a clear view of the comparative cost of its services and therefore the full extent of opportunities for savings.

The Medium-Term Financial Plan (MTFP), adopted in February 2023 to 2027/28, demonstrates a balanced budget across the whole period which is dependent on a significant requirement for savings. Council Tax yield is expected to increase significantly and will be 14% higher in 2027/28 than in 2023/24. Additional funding is expected to be generated in future years as a result of forecast growth in the taxbase.

The council has been active in seeking to achieve a balanced budget for 2023/24, by making savings, gaining extra income and acting proactively where there were cost concerns. It has used budget recovery boards to address these areas of spending pressures. The seven Integration and Improvement Programmes have been established and disaggregation is going to plan though there are still significant issues to be resolved.

The current financial position is positive. The Transformation Fund budget of £5 million (to be funded from part of the capitalisation direction) has been removed as the resources can be found elsewhere in the budget. The council is continuing to keep close control of these provisions and expects to only capitalise a maximum of around £20 million in the year. The final figure may be lower. Against the revised revenue budget of £263.478 million, the current forecast is for an overspend of £861,000.

The identified risks to a balanced budget being achieved in 2023/24 (pay award; disaggregation; payroll uncertainties; engagement of agency staff in lieu of permanent appointments) have been mitigated. Another risk identified was Fees and Charges income, where the council's policy of full cost recovery may not overcome the shortfall inherited from former councils. In 2021/22 they only achieved an average income of £216.17 per head compared to a unitary council average of £243.

Future challenges

A potential risk is the receipt by Westmorland and Furness Council and Cumberland Council of an Equal Pay claim relating to over 400 employees of the former County Council, some of whom are now employed by Westmorland and Furness Council. At this stage, this must be regarded as an indeterminant risk.

For 2024/25, the current estimate, at the time of writing, is that the council has a potential £5m budget deficit but the council is not seeking a capitalisation direction for 2024/25.

Risk areas to the budget have been identified and are being controlled, although there is more work that could be done to increase income.

Managing risk and priorities

The Council Plan outlines seven key priorities which provide a framework that the council is working towards. The Budget and Policy Framework Rules detail the requirements that the organisation uses to control decision making. Since the start of the new council in April 2023, the council has maintained services with minimal disruption to local people and is taking a pragmatic approach to reorganising individual services, emphasising that legal and safe delivery is paramount. Finance is recognised as important at all levels and there is a high visibility of governance arrangements.

Financial matters take a high prominence amongst senior officers. Financial reports are well articulated and there is confidence in them across the Council. Recent recruitment has strengthened the Finance team and they have taken steps to focus on critical issues such as the reconciliation of the payroll to the establishment and the allocation to the correct budget codes. Training has been given to managers in decision making and recording and they are emphasising the transparency of financial decisions.

The Quarter 1 (Q1) Strategic Risk Report detailed high risk areas of specific operational and functional risks in Adults and Children's Social Care where the council is experiencing financial pressures. The Report has Financial Sustainability of the council as a medium rated risk and it also detailed further planned internal and external activities. From December 2023, integration and improvement will be enhanced by a Transformation programme.

Future plans

The Capital Programme to 2027/28 reflects the aggregation of the existing three former councils' capital programmes and some additional investment to support delivery of the council's priorities including investment in a Solar Farm in Barrow. The total Capital Programme for 2023-2028 is forecast as £310.691 million.

Inflationary and other pressures on the capital programme are under review monthly via the council's Capital Delivery Group and the council is investing in greater resources to manage the programme as currently there is significant slippage. Forecast spend for 2023/24 is £92.930 million compared to the February 2023 estimate of £134.77 million. The council anticipates having to prioritise new externally funded spend of approximately £25 million by 2026 in new schemes.

To assist development of a new direction that fits the council's priorities, CIPFA have been commissioned by the Corporate Assets Team to establish the Capital Strategy and Asset Management Strategy which is now in draft. This has not been considered as part of the review. The council anticipates that the capital programme will change incrementally. The council has updated and considered a revised Treasury Management Code.

The council does not have a commercial strategy although the council owns, jointly with Cumberland Council, a company called Cumbria County Holdings. This operates as a Holding Company for waste management activities. The solar farm investment is estimated to generate electricity for 35 years with income of around £200,000 per annum from late 2024.

Overall financial health

The council carries less gross external debt than any of its relevant comparator groups, at 72% of net current expenditure and net debt is £34.7 million. No new external borrowing is expected in 2023/24.

Following further work on the outturn position of the former councils, reserves had increased by £3.604 million to £73.439 million and only slightly decrease to £73.721 million by the end of 2023/24, with General Fund Balances of £22.613 million. The level of the General Fund Balance is considered acceptable against a unitary council 2021/22 average of 5.8% of net spend.

The council has inherited substantial assets with a gross book value of £519.12 million. There are 61 'surplus' county council assets with an Asset Value of £5.72 million. Also included are 23 Investment properties including retail units and industrial sites. The council is developing its Asset Management strategy but has recently adopted a Disposals Policy of re-use of assets once identified as surplus. This includes consideration of transfer to a partner (some engagement has taken place) and then possible community asset transfer. Progress is substantially complete on creating the role of 'corporate landlord' making use of an occupancy management system to identify opportunities for rationalisation of accommodation. This needs to be supported by a comprehensive approach to agile working facilitated by the appropriate IT.

In common with many local authorities, the council faces significant financial challenges. They have however managed these challenges in their first year of operation. In the course of our work, we identified some issues that the council will need to address going forward. We have noted them and made suggestions throughout the report. We understand that because of the progress the council has made and continues to make, they are not at this stage seeking exceptional financial support for 2024/25 and we support this.

1.2 Key Risks and Recommendations

Key risk	Risk rating (see details in Annex 1)	Recommendation (including Timeline)
1. The council is still developing a full picture of the legacy issues inherited from the former councils and though it has not produced a public overview of how it will improve service delivery and respond to citizens' needs yet, it has established mechanisms to do this.	3	1. The council needs to develop a clear view of the comparative costs of services and comprehensive performance management needs to be addressed in the short term to frame ongoing work that will integrate and improve services. *June 2024*
2. Combined former councils' 2021/22 data compared to other unitary councils indicates that the council has less revenue available for service delivery than the average Unitary council. The revenue funding and expenditure is likely to be unbalanced and needs addressing with a rigorous approach. We do not think at this stage that the council has a full view of the comparative cost of services and therefore the opportunities for savings.	3	2. A programme of cost benchmarking will help the council's improvement programme and assist in identifying areas for savings over the MTFP period. *June 2024*
3. Performance management is underdeveloped which could affect the council's ability to make informed decisions against its priorities.	3	3. The council needs to devote resources to develop performance management not just against the Corporate Plan but also to measure the provision of services that are important to local people. *September 2024*

4. Risk areas to the budget have been identified and are being controlled, although there is more work that could be done to increase income.	3	4. The council should consider a further improvement and integration programme on Sales, Fees and Charges, to ensure that harmonisation increases the net income the council achieves to at least the Unitary council average. This will potentially raise the council £6.03 million additional income for the Council. *October 2024*
5. The council faces an indeterminate risk from the Equal Pay claim lodged against the council by employees of the former County Council.		
6. Corporate risk levels have been appropriately identified and rated, though Financial Sustainability of the council is only recognised as a medium rated risk.	3	5. We recommend that the council ensures the remedial actions in the corporate risk register are sustained and amplified to mitigate the areas of high risk in Adult and Children's Social Care. *September 2024*
7. The council is intending to commence its programme of transformation in December 2023, and this may impose a strain on the organisation, particularly in respect of the financial and subject matter expertise required.	3	6. We would urge the council to ensure it maintains Programme Management resources to manage its integration & improvement programme and support service managers so they can focus on developing services. *June 2024*

8. Recent decisions have increased the overall size of the capital programme and because of the slippage in this year and inflationary pressures the spend requirements for 2024/25 are significantly higher.	4	7. We would urge the council to continually review the capital programme and to take a realistic view of its capability to deliver the programme for 2024/25, given likely slippage from 2023/24 and inflationary pressures and extra spend requirements. This would identify whether additional resources are needed (either internally or externally) to manage the programme. *June 2024*
9. The council is still developing its capital strategy to support the council's priorities, alongside an updated and revised Treasury Management Code.	3	
10. The council doesn't maximise the use of its surplus assets. The council has inherited a significant number and value of 'surplus' assets and needs to use that value positively to improve its reserves.	3	8. We would urge the council to progress disposal of assets wherever possible in a phased way to avoid overloading the local market as part of the early development of a comprehensive Asset Management Plan. *September 2024*

2 Introduction

2.1 Background

Westmorland and Furness council is a unitary authority, first elected in May 2022. It operated as a shadow authority until it replaced Cumbria County Council, Barrow-in-Furness Borough Council, Eden District Council and South Lakeland District Council on 1 April 2023. As such it comprises the south-eastern side of the former Cumbria County Council area.

There are 65 councillors and the last full local elections gave the Liberal Democrat Party 36 seats and therefore they form the Executive. Westmorland and Furness Council applied for exceptional financial support (EFS) for their first year of operation in 2023/24 to fund transformation and transition costs following reorganisation. They have received in-principle capitalisation of £26 million.

However, receiving this support was conditional on the council agreeing to an external assurance review being carried out – to provide assurance over the financial position of the council and that all reasonable steps have been taken to minimise the need for government support.

2.2 Requirement

CIPFA was given a specification of work required with the following core objectives:

- a review of the council's exceptional financial support (EFS) requirement for 2023/24
- an assessment of planned transformation activity – including whether plans are in development to maximise the opportunities of becoming a unitary council
- to identify any further actions that could support delivery of financial benefits and long-term sustainability following unitarisation
- a review of the council's overall financial management and sustainability
- a review of the council's capital programme
- to give recommendations to provide the council with tangible actions to guide the design and implementation of an Improvement Plan to address any identified risks and / or issues

To respond to the specification, we looked at the following key areas:

Legacy from former councils: an overview of the challenges the council faces from the service performance of the former councils.

2023/24 EFS Requirement: an assessment of the council's current need for EFS, reviewing updated data and information available, e.g.

- disaggregation of the former County Council's budgets/assets/liabilities etc.
- finalised accounts and closing reserves position of predecessor councils
- estimated savings to be realised in 2023/24
- actions the council has and plans to take to minimise the need for government support, and whether there are any further steps they could consider
- assumptions behind anticipated service pressures and whether these seem reasonable

Longer term transformation: are plans in place/being developed to maximise the opportunities of becoming a unitary council which will ensure they are financially sustainable in the longer term

Financial management and financial sustainability: an assessment of the council's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering service.

Capital programme/companies: an assessment of the council's capital programme and management of related risks including arrangements with Local Authority Owned Companies.

Commercial assets/debt: an assessment of the council's assets and investments including dependence on commercial income, debt costs and other risks.

2.3 Methodology

To respond to the requirements above we undertook a number of activities. This can be summarised as:

Desktop analysis

We reviewed material related to the previous constituent councils to form an understanding of the comparative costs and performance of the services of those councils using a variety of sources. We also looked at legacy issues for the new council from the capital and savings plans of the former councils.

We collected current documents from the council and reviewed those. We would like to record our thanks to council officers for their ready compliance with our request for reports and data.

Specialised inputs

Some comparative data analyses were conducted on issues such as revenue spend and indebtedness. Comparisons have been made with each of the former constituent councils nearest neighbours, to give an indication of where the new authority sits on important metrics. We have also produced comparisons with the 6 unitary authorities in the Northwest. Where relevant, they are found throughout the report.

Interviews

The bulk of the fieldwork comprised interviews. These provided the invaluable 'triangulation' of our analysis. council officers, Members, auditors and other experts were invited to give views and respond to queries prompted by documentary evidence. We would like to thank everyone involved for their courtesy and constructiveness.

Report drafting, feedback and fact-checking

The above inputs were then analysed and subjected to our professional and expert judgement. The result is this report.

This report was fact checked as far as possible and is based on the fieldwork completed within the time frame 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.

3 Areas Reviewed

3.1 Review Area 1 - LEGACY FROM FORMER COUNCILS

An assessment of comparative costs and performance of the services of the former councils and the legacy issues for the new council.

Findings, issues, evidence and analysis

The area

Using data from the ONS' indices of multiple deprivation (IMD), Westmorland and Furness has an adjusted deprivation score of 53% the same as the national average, whereas unitaries in the North West have a group average of 40%. Based on 2021 mid-year population estimates, Westmorland and Furness has a population of 227,100 in an area of just under 3,800 square kilometres, or about 1,450 square miles. This gives a population density of 60 people per hectare, significantly lower than its nearest neighbours (156) or other unitaries in the region (1663).

As at 2021/22, education attainment is lower than elsewhere in the country; quality of life for social care users is worse than the national average and social care provision is less available than elsewhere. Although fewer children are in care than the average, their future prospects may not be as good as the average of comparators. Public Health measurements for child obesity, early age pregnancy and alcoholism are all below average. Housing availability is an issue with the increase in housing stock below average and the number on housing waiting lists is worse than average though the number in temporary accommodation is below average. Accessibility to employment is worse and there are more road traffic accidents than average. Business Registrations are lower than average.

Service performance of the former councils

There is limited detail on the performance of services of the former councils though we undertook an analysis of performance to rank the 4 former councils against each other and also to compare against the average of similar councils. This suggested Principal roads are maintained to a better standard than nearest neighbours. A greater percentage of planning applications are approved though not always as fast as the average elsewhere. More appeals against planning decisions are allowed than the average. Less waste is collected per head than average though less of it is recycled than the average. Though the picture is mixed it does suggest that of the 3 former District councils, Barrow performed consistently worse than the other 2, particularly in Waste and Recycling and in Planning performance. For former County functions, there are weaknesses in all service areas by comparison with other county councils.

Cost of services

We looked to see whether the comparative cost of the services yielded any scope for savings beyond the probable financial benefit of the integration of management and other overheads. To do this we took the costs for each service block in the Revenue Outturn (RO) returns for 2021/22 (using the Eden 2019/20 figures) and divided them by the population to give a cost per head. For the former Cumbria County Council services, we divided the reported costs by the populations of the two new Unitary councils.

For the former councils aggregated we identified a total service cost per head of population of £1173.99. This compares to £1677.18 for the six other north west unitary councils. This suggests there is limited scope for making service cost savings. However, compared to the other councils, the former councils spent less than 43% of the average per head for a grouping of Education, Social Care, Public Health and Housing services (£581.65 to £1357.14) but 21% more for the grouping of Highways, Cultural, Environmental and Planning services (£250.93 to £206.63). Reducing this latter group of services to average cost per head could reduce costs by £12.1 million. We noted additionally the wide disparity in cost of services in the former district councils in Housing; Culture; Environmental and Planning.

Service improvement

We note that the council has recognised some of these issues and has instituted seven Integration and Improvement Programmes, that include Adult Social Care, Children's Social care, Planning and Waste. We understand these will be focused on service improvement. Another of the programmes is focused on Citizen Experience. To support this the council's Data Team was developing information and analytics to guide policy development. Service Plans have all been developed.

Current Performance

The Corporate Performance Monitoring Report Quarter 1 2023/24 provides information on how the council is performing against a range of indicators, aligned to the Council Plan priorities. A Red-Amber-Green (RAG) rating shows 56% are above or on target. The report comments that it has been possible to maintain key deliverables, despite the complexities associated with the formation of a single authority. In discussions the council has acknowledged that this reporting is not fully representative of the breadth of service delivery and there is more to be done.

Risks

1. The council is still developing a full picture of the legacy issues inherited from the former councils and though it has not produced a public overview of how it will improve service delivery and respond to citizens' needs yet, it has established mechanisms to do this.

2. Combined former councils' 2021/22 data compared to other unitary councils indicates the council has less revenue available for service delivery than the average unitary council. The revenue funding and expenditure is likely to be unbalanced and needs addressing with a rigorous approach. We do not think at this stage the council has a clear view of the comparative cost of services and therefore the opportunities for savings.

3. Performance management is underdeveloped which could affect the council's ability to make informed decisions against its priorities.

Recommendations

1. The council needs to develop a clear view of the comparative costs of services and comprehensive performance management needs to be addressed in the short term to frame ongoing work and to integrate and improve services.

2. A programme of cost benchmarking will help the council's improvement programme and assist in identifying areas for savings over the MTFP period.

3. The council needs to devote resources to develop performance management not just against the Corporate Plan but also to measure the provision of services that are important to local people.

3.2 Review Areas 2 and 3 - 2023/24 EFS REQUIREMENT AND LONGER TERM TRANSFORMATION

An assessment of the council's current need for EFS, reviewing updated data and information available, e.g.

- **disaggregation of the County Council's budgets/assets/liabilities etc.**
- **finalised accounts and closing reserves position of predecessor councils**
- **estimated savings to be realised in 2023/24**
- **actions the council has and plans to take to reduce the need for capitalisation, and whether there are any further steps they could consider**
- **assumptions behind anticipated service pressures and whether these seem reasonable**

To assess whether plans are in place/being developed to maximise the opportunities of becoming a unitary council which will ensure the council is financially sustainable in the longer term

Findings, issues, evidence and analysis

Medium-Term Financial Plan (MTFP)

The Medium Term Financial Plan for Westmorland and Furness Council was adopted to cover the period from February 2023 to 2027/28. It demonstrates a balanced budget across the whole period achieved by a significant requirement for savings: £9.911 million in 2024/25; £13.585 million in 2025/26; £13.778 million in 2026/27 and £15.086 million in 2027/28. Over the period there is use of reserves of £1.73 million. Council Tax yield is expected to increase significantly and will be 14% higher in 2027/28 than in 2023/24. Additional funding is expected to be generated in future years as a result of forecast growth in the taxbase, including through the application of the second homes tax from circa 2025.

We understand that because of the progress the council has made and continues to make, they are not at this stage seeking Exceptional Financial Support for 2024/25 and we support this.

Delivering the Medium-Term Financial Plan

In June 2023, the risks to achieving the budget for 2023/24 were detailed for the Cabinet. Since then, the pay award has been settled; disaggregation issues are controlled by the Joint Executive Board and there is adequate governance of the IAA (Inter Authority Agreement); payroll amounts were as expected though the allocation of costs to budgets was still being refined; the council has been successful in recruiting permanent appointments to replace Agency staff particularly amongst Social Workers and the director and assistant director posts are mostly in place. The council's view is that the quantum of the risks has accordingly lessened since June.

Another risk identified was Fees and Charges income. The council has adopted a Fees and Charges policy where the overall aim is to ensure that the proportion of income raised from users of discretionary services meets the full cost of these services, rather than the costs falling on council taxpayers in general. This is important as based on the 2021/22 returns the former councils achieved average income of £216.17 per head compared to a unitary council average of £243 per head.

Another risk is the receipt in August 2023 by the council and Cumberland Council of an Equal Pay claim relating to over 400 employees of the former County Council, some of whom are now employed by Westmorland and Furness Council. There is at this stage no agreement on the validity of the claim, the implications of the claim and the timing of any financial consequences. At this stage this must be regarded as an indeterminant risk to the council.

At Quarter 2 (Q2) the council had made savings (extra income) against the budget of £1.8 million in Social Care (through providing more Home Care to meet previously unmet demand and receiving more personal contributions). Advanced Practice Social Work leads are being used to enhance the timeliness and content of assessments.

In addition, the council has taken steps to enhance income from the joint work with the NHS and the two CHCs (Community Health Councils), challenging past arrangements to ensure a more rigorous approach.

We noted that in other areas, the council was acting proactively where there were cost concerns. For example, in Children's Services, there is a potential overspend of £1.511 million for home to school transport and special educational needs and disability (SEND) transport operational service. The council has established budget recovery boards to address these areas of spending pressures.

We noted above the seven Integration and Improvement Programmes. The progress of one of them, the Independence & Wellbeing programme based on the concept of prevent, reduce and delay, in order to elongate independence as much as possible, was explained to us. This involved a Programme Board which met regularly and reported to the Corporate Board and informal cabinet.

Disaggregation of activities since day 1 of the council is going to plan but there are still significant issues to be resolved in former County Council services (such as the budget impact of the transferred Winter Gritting service) and systems integration that the Joint Executive Committee is reviewing. The stabilisation programme is ongoing.

The council has, within the 2023/24 budget, allocated the available in-principle capitalisation in two ways. Firstly, £9.5 million to Directorate budgets to fund pressures identified before the start of the financial year and secondly £16.5 million was retained centrally. As noted above the Directorate expenditure is broadly in line with the budgets and therefore capitalised funds are expected to be used by the end of the financial year. If an overall underspend position is identified at year end the capitalised funds will be reduced to the minimum needed to deliver a balanced budget.

The 'central' budget is being utilised for integration and improvement priorities, disaggregation pressures, and short-term capacity pressures in 2023/24. It is also supporting development of the overall change programme and supporting key programmes of work to deliver integrated and improved services. As noted above the council have concluded that £5 million of this is no longer needing to be spent in 2023/24 and have removed the provision from the budget. The council is continuing to keep a careful control of these provisions and expects to only capitalise a maximum of around £20 million in the year. The final figure may be lower.

Current financial position

The original net budget was to be £268.478 million, approved in March 2023 at the Budget Setting meeting. The council's Cabinet received a report in June 2023 on 2023/24 Revenue and Capital Budget Monitoring for Quarter 1. The headlines were that the forecast outturn position is an overspend position of £324,000. £5.324 million of budget pressures within

Directorates are offset by £5 million one-off additional income from treasury management. Risks were identified to achieving the budget for 2023/24 earlier in the year and these have been managed.

At Q2, there are some major developments. The Transformation Fund budget of £5 million (to be funded as part of the capitalisation direction) has been removed due to delays in developing transformation plans and also a more favourable financial position. Development of the overall change programme improvements and efficiencies are being delivered through the Integration and Improvement Board budget. This results in the total net expenditure budget reducing to £263.478 million.

The net forecast outturn for 2023/24 is £264.339 million, resulting in a forecast overspend of £861,000. At Q2, £5.914 million of budget pressures was within Directorates and £1.5 million within Other Corporate Items which are being offset by one-off additional income (£6.553 million) from treasury management due to the higher interest rates and continued internal borrowing. The total approved savings in 2023/24 of £7.301 million are assumed to all be delivered by 31 March 2024.

For 2024/25, the actions the council has taken and will continue to take have resulted in the Cabinet being briefed that the council still has an estimated £5 million budget deficit for 2024/25. Work is ongoing to identify further savings, to potentially identify additional funding through the draft local government finance settlement and to review the investments in activities in order to ensure that a balanced budget is identified for review by Cabinet in February 2024. The council is not seeking a further capitalisation direction for 2024/25.

Risks

4. Risk areas to the budget have been identified and are being controlled, although there is more work that could be done to increase income.

5. The council faces an indeterminant risk from the Equal Pay claim lodged against the council by employees of the former County Council.

Recommendations

4. The council should consider a further improvement and integration programme on Sales, Fees and Charges, to ensure that harmonisation increases the net income the council achieves to at least the Unitary council average, potentially gaining the council £6.03 million additional income.

3.3 Review Area 4: FINANCIAL GOVERNANCE AND DECISION MAKING

An assessment of the Local Authority's financial management and management of risk, financial pressures, deliverability of savings plans and efficiency in delivering services including consideration of:

- **the financial management and risk assessment processes adopted by the Local Authority and a view on their appropriateness.**
- **the Local Authority's capability and capacity to drive any changes that need to be made in this area.**
- **any underlying drivers of financial fragility and risk.**
- **an assessment of Local Authority savings plans including their deliverability and appropriateness.**
- **compliance with local government accounting codes and international financial reporting standards.**
- **the efficiency of service delivery, including against comparator Local Authorities, sector metrics and wider public sector metrics.**
- **the ability of the Local Authority to meet pressures through its own resources and thus minimise the need to borrow including appropriate use of reserves and service efficiencies.**

Findings, issues, evidence and analysis

The Council Plan outlines seven key priorities, which provide a framework that the council is working towards. The essence of this is economic growth, housing delivery and dealing with an ageing population. The Budget and Policy Framework Rules detail that the Executive must submit the budget and estimates to the council, considering any objections by council members. Once the budget is agreed, the Executive, committees of the Executive, individual Executive councillors and officers may only take decisions which are in line with the budget and policy framework.

The council has a constitution that includes the Budget and Policy Framework procedure rules, Finance Procedure Rules and the Contract Procedure Rules. These are comprehensive and in accordance with good practice.

Since the start of the new council in April 2023, the council has maintained services with minimal disruption to local people and is taking a pragmatic approach to reorganising individual services depending on the level of change needed whilst emphasising that legal and safe delivery is paramount. Members engage in reviewing levels of risk and recognise the importance of finance. There is no desire for high-risk out of area investments and through regular briefings, Members are on top of the details. Quarterly financial monitoring is reported to Cabinet. The council has a developing Scrutiny function and there is an extensive Member development programme. There is a high visibility of governance and a draft Annual Governance Statement is in place with a Governance Group to improve arrangements.

The Corporate Management Team (CMT) meets weekly, there is a fortnightly Integration Board and there is a proactive senior leadership team of Assistant Directors. The council's statutory officers meet regularly to review governance and other matters. The Section 151 Officer has pushed other Directors to be open and review the opportunities for savings against a challenging financial backdrop. The Section 151 role is being performed well. Financial figures are articulated well and there is confidence in the figures despite continued use of four finance systems. There are plans to harmonise finance systems. There is more transparency than with the former County Council and a Service Director told us they feel part of the discussions.

Recent recruitment has strengthened the Finance team though there are still vacancies and one senior post ‘frozen’. We were told of the problems caused by the continued use of four finance systems but the Finance Team had taken steps to focus on critical issues such as the reconciliation of the payroll to the establishment and the allocation to the correct budget codes.

Training had been given to 200 managers in decision making and recording and they are emphasising the transparency of financial decisions. A decision tracker is in development. The Legal team are represented on each Departmental Management Team (DMT).

The Audit Committee received a report on 20 September 2023 on the 2023/24 Q1 Strategic Risk Report. High risk areas included specific operational and functional risks in Adults and Children’s Social Care where the council is experiencing financial pressures. Financial Sustainability of the council was a medium rated risk. In addition to the key financial controls in place to mitigate the risk, the risk register highlights further planned internal and external activities. These are wide spread and involve both the development of regular budget monitoring; reviews of high-risk budget areas; generation of savings proposals; and reviews of the capital programme and earmarked reserves.

From December 2023, integration and improvement will be enhanced by a Transformation programme. Throughout, the programme will be underpinned by Project Management Office (PMO) support and Assurance (governance, oversight and monitoring).

We have already commented above regarding service delivery. We note that on socio-economic measurement the area does not compare well to other unitary areas. Service performance of the former councils was weak in comparison. Compared to other unitary council areas, the former councils’ spend per head on services was low.

Risks

6. Corporate risk levels have been appropriately identified and rated, though Financial Sustainability of the council is only recognised as a medium rated risk.

7. The council is intending to commence its programme of transformation in December 2023, and this may impose a strain on the organisation, particularly in respect of the financial and subject matter expertise required.

Recommendations

5. We recommend that the council ensures that the remedial actions in the corporate risk register are sustained and amplified in order to mitigate successfully the areas of high risk in Adult and Children’s Social Care.

6. We urge the council to ensure it maintains Programme Management resources to manage its integration & improvement programme and support service managers so they can focus on developing services.

3.4 Review Area 5: CAPITAL PROGRAMME/COMPANIES

An assessment of the Local Authority's capital programme and management of related risks including arrangements with Local Authority Owned Companies including:

- **an assessment of overall risk in the proposed capital programme, including a review of governance and scrutiny arrangements, risk management processes, and investments including wholly or partly owned companies.**

Findings, issues, evidence and analysis

Capital programme

The Medium Term Financial Plan was adopted in February 2023. The plan to 2027/28 reflects the aggregation of the existing three former councils' capital programmes and some additional investment to support delivery of the council's priorities in the short and medium term, resulting in an overall capital investment over the five year period of £252.786 million. In June 2023 the Cabinet was told of changes required from the introduction of four new schemes: UK Shared Prosperity Fund (UKSPF) - external grant funding of £1.338 million; Beaconside School Extension – section 106 funding of £2.670 million; Solar Farm Programme funding of £2.781 million and Affordable Housing funding of £4.8 million. At Q2, with some further in year adjustments and inclusions, the total re-profiled Capital Programme 2023-2028 is forecast as £310.691 million including Accountable Body schemes.

This reprofiling will not require any extra borrowing but it is important to note that schemes are attracting additional costs from inflationary pressures. Also, there are challenges from a lack of suitably qualified resources within the broader employment market. These factors are under review monthly via the council's Capital Delivery Group and reported to the Corporate Management Team via the Capital Programme Blue, Red, Amber and Green (BRAG) Report. The work of the Group is focused on delivering the programme, but despite their work, risk of slippage from 2023/24 was identified at the time of re-profiling, though this had been restrained in Q2. Forecast spend for 2023/2024 is £92.930 million compared to £134.77 million estimated in February 2023.

The council is investing in greater resources to manage the programme. Each project will have a Senior Responsible Officer (SRO) using the gateway methodology supported by expertise such as a Finance Business Partner and there will be extra PMO support. There will be an assurance team for externally funded schemes. Highways schemes will have their own project management board.

The continued investment in these resources by the council is critical as following the recent Autumn Statement, the council anticipates having to prioritise new externally funded spend of approximately £25 million by 2026 in new schemes.

Future capital strategy

The current capital programme (except for the four schemes recently introduced) is a legacy from the former councils. In order to assist in developing a new direction that fits the council's priorities, CIPFA have been commissioned by the Corporate Assets Team to establish the Capital Strategy and Asset Management Strategy which is expected to be presented to the council in February or March 2024. The council anticipates that the capital programme will change incrementally. This work has not been considered as part of this review.

Treasury management strategy

As at 31 December 2022, the council novated external borrowing and investments from the former councils. The council has updated and considered a revised Treasury Management Code. In determining whether borrowing will be taken in advance of need, the council seeks (amongst other requirements) to ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need. It will ensure that the ongoing revenue implications of the borrowing, and the impact on future plans and budgets have been considered.

Minimum Revenue Provision (MRP)

Prior to Local Government Reorganisation (LGR) the legacy councils each adopted different methodologies to the calculation of MRP. For 2023-24 the Treasury Management Strategy Statement (TMSS) reflects a hybrid calculation based on existing MRP policies of the former four councils.

The council will undertake a review of its MRP policy during 2023/24 to develop a consolidated policy fit for purpose for the new council. It is expected that any proposed amendments to the following policy would be approved by council during 2023/24.

Commercial strategy

The council does not have a commercial strategy with the intention of generating commercial income although the council owns jointly with Cumberland council a company called Cumbria County Holdings. This operates as a Holding Company for the shares in Cumbria Waste Management Limited, Orian Solutions Limited, Cumbria Waste Recycling Limited, Trotters Dry Waste Limited, ECR Recycling Limited, Lakeland Waste Management Limited, SLS (Cumbria) Limited and 50% of the shares in Lakeland Minerals Limited and any other Subsidiary Undertaking of the Company from time to time.

We noted above, the addition of schemes to the capital programme. One of these was to construct a 2MW Solar Farm at Sandscale Park, Barrow in Furness at an estimated cost of £2.781 million funded from a combination of capital receipts and prudential borrowing. The Cabinet also approved entering into an agreement with an energy organisation to sell the electricity generated. The solar farm is estimated to generate around 2.6 million kWh of electricity on average each year, for 35 years. With estimated operational costs of approximately £50,000 per annum, a payback period of 9 years is anticipated with income of around £200,000 per annum benefitting the council from late 2024. We see this investment as being in line with the direction the council wishes its capital programme to take.

Risks

8. Recent decisions have increased the overall size of the capital programme and because of the slippage in this year and inflationary pressures the spend requirements for 2024/25 are significantly higher.

9. The council is still developing its capital strategy to support the council's priorities, alongside an updated and revised Treasury Management Code.

Recommendations

7. We urge the council to continually review the capital programme, to take a realistic view of its capability to deliver the programme for 2024/25, given likely slippage from 2023/24 and inflationary pressures and extra spending requirements. This would

identify whether additional resources are needed (either internally or externally) to manage the programme.

3.5 Review Area 6: COMMERCIAL ASSETS/DEBT

An assessment of the Local Authority's assets and investments including dependence on commercial income, debt costs and other risks including:

- **an assessment of the overall position on borrowing and indebtedness and the impact on its longer term sustainability, including liability benchmarking.**
- **the Local Authority's approach to asset management and valuation, a judgement on its asset portfolio including the potential use of appropriate asset sales over a reasonable timescale to raise capital receipts and reduce risk where appropriate.**
- **the Local Authority's commercial investment portfolio and forward strategy, including dependence on commercial income, exposure to debt costs, and providing recommendations on whether and how the Local Authority should take steps to reduce its exposure to investment risk. This should not be limited to commercial property.**
- **the Local Authority's approach to mitigating risk, such as the use of risk reserves or sinking funds to offset fluctuations in commercial income or debt costs.**
- **the Local Authority's exposure to refinancing and other risks as a result of its chosen borrowing strategy.**

Findings, issues, evidence and analysis

Debt and reserves

The council carries less gross external debt than any of its relevant comparator groups, at 72% of net current expenditure. External borrowing and investments at 31 December 2022 were estimated as below:

External borrowing and investments	Principal (as at 31 Dec '22) £m	Average Interest Rate %	Average Life Years
Total External Borrowing	193.3	3.84	25.5
Total Treasury Investments	158.6	3.09	< 1 year
Net Debt	34.7		

Table 1: Detail of External Borrowing and Investments. Treasury Management Strategy Statement (TMSS) – February 2023.

No new external borrowing has been undertaken in the first six months of 2023/24 with the council implementing its strategy to offset previously approved borrowing with short term cash reserves rather than incurring borrowing costs on new loans. It is also expected that no further borrowing will be undertaken during the remainder of 2023/24.

The Medium Term Financial Plan covers the period February 2023 to 2027/28. Over the period there is planned use of reserves of £1.73 million. Reserves were and remain significant including; General Fund Balance of £22.713 million; Local Government Reorganisation (LGR) reserve of £3.184 million; Modernisation Reserve of £2.920 million and earmarked reserves of £56.285 million.

In September, the Cabinet was informed that following further work on the outturn position of former councils, the total reserves of £73.439 million had increased by £3.604 million. By the end of 2023/24 the prediction was that the council would have total reserves of £73.721 million including General Fund Balances of £22.613 million. The level of the General Fund Balance is acceptable against a unitary council 2021/22 average of 5.8% of net spend.

Assets

The council has inherited substantial assets (around 550 buildings and 1200 non-Housing assets) with a gross book value of £519.12 million. Of those there are 61 ‘surplus’ county council assets with an Asset Value of £5.72 million. Also included are 23 investment properties including retail units and industrial sites held primarily or partially to generate a profit. Work on the finalisation of the split of legacy Cumbria County Council assets of Vehicles, Plant and Equipment, Heritage Assets and Highways Infrastructure is underway.

We understand that the council is developing its Asset Management strategy but has recently adopted a Disposals Policy of re-use of assets once identified as surplus before a) considering disposal for income, followed by b) consideration of transfer to a partner and then possible c) community asset transfer (detailed in an approved Community Asset Transfer policy).

We were told that progress is substantially complete on creating the role of ‘corporate landlord’ and makes use of an occupancy management system to identify opportunities for rationalisation of accommodation. This needs to be supported by a comprehensive approach to agile working facilitated by the appropriate IT.

The council have engaged with public sector partners on possible rationalisation and/or joint use of property assets.

Risks

10. The council doesn’t maximise the use of its surplus assets. The council has inherited a significant number and value of ‘surplus’ assets and needs to use that value positively to improve its reserves.

Recommendations

8. We would urge the council to progress disposal of assets wherever possible in a phased way to avoid overloading the local market as part of the early development of a comprehensive Asset Management Plan.

Annex

A1 Risk Assessment – Method

Impact

Likelihood	Critical:3	Moderate:2	Marginal:1
Probable:3	High - 9	High - 6	Medium - 3
Occasional:2	High - 6	Medium - 4	Low - 2
Improbable:1	Medium - 3	Low - 2	Low - 1

Likelihood:

- improbable – possible, but unlikely to happen.
- occasional – might happen, might not happen, in the order of 50/50
- probable – most likely will happen.

Impact:

- marginal – some minor (less than £1000) costs involved, possible minor operating difficulties largely contained within the Council, some awareness / action may be required by members.
- moderate – financial losses / costs up to £100k, operating impacts hitting services for some of the community, a significant issue for members to deal with
- critical – major financial losses / costs in excess of £100k, subsequent intervention by DLUHC or other 3rd parties, reaches national press interest, major political embarrassment for members.

A2 Documents Reviewed

Shadow Authority Cabinet – February 2023: Draft Revenue Budget 2023/24 and Medium Term Financial Plan (2023-2028) and Draft Capital Programme (2023-2028)

Medium Term Financial Plan 2023-2028

Capital Programme 2023-2028

Annual Treasury Management Strategy Statement 2023/24 (including annual investment strategy 2023/24, prudential indicators and minimum revenue provision policy statement)

Budget 2023/24: Locality Boards Devolved Budgets

Westmorland and Furness Council Fees and Charges Policy

Equality Impact Assessment – Screening: Fees and Charges Policy 2023-24; Council Tax Harmonisation and annual Council Tax increase;

Senior Leadership Pay Policy Statement

WESTMORLAND & FURNESS COUNCIL CONSTITUTION EDITION: AUGUST 2023

Report to Cabinet: 2023/24 Revenue and Capital Budget Monitoring to June 2023 – Quarter 1

Capital Programme Budget Changes Quarter 1 2023/24 (excluding Accountable Bodies)

Interim Corporate Performance Monitoring Report - Quarter 1 2023/24

ARTICLES OF ASSOCIATION OF Cumbria County Holdings

Shareholders Agreement - Cumbria County Holdings

Council Senior Management Chart

Cabinet Report – 12 September 2023: Decision to build and operate a 2MW Solar Farm at Sandscale Park, Barrow in Furness and enter into an agreement for the sale of generated electricity

Audit Committee – 20 September 2023: 2023/24 Q1 Strategic Risk Report

- 2023/24 QUARTER 1 – STRATEGIC RISK SUMMARY
- QUARTER 1 - RISK MANAGEMENT FRAMEWORK SUMMARY
- QUARTER 1 - RISK MANAGEMENT IMPROVEMENT PLAN
- Aa Fixed Asset Registers - 31 03 2023
- Ab Westmorland and Furness Pipeline 20.11.2023
- Ac Cashflow 2023-24 October
- Ad Audit Findings Report SLDC 2021-22 - Draft v3

Joint Executive Committee - Agenda and Reports 13 November 2023

Barrow Borough Council - Audit Findings 202122

A3 Interviews Conducted

- Director of Adult Social Care (Supported by Jamie Wright –Finance)
- Chief Legal and Monitoring Officer
- Previous Chair of Cumbria CC Audit Cttee
- Director of Resources
- Assistant Director of Resources
- Chair of Audit Cttee
- Assets & Capital Strategy
- Head of Internal Audit
- Chief Executive & Sue Roberts
- Leader of the Council
- Cabinet Member Finance

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