CIPFA

Cumberland Council

External Assurance Review

December 2023

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

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1.1 Summary of Findings, Issues, Evidence and Analysis

Background

Cumberland Council is a unitary authority which replaced Cumbria County Council, Allerdale Borough Council, Carlisle City Council and Copeland Borough Council on 1 April 2023. As a new unitary authority, it is important that Cumberland Council understands the legacy councils that it is made up from and the challenges it has inherited. The council is still forming and its governance, budget planning and management arrangements are still in development. Progress has not been as quick as the council would have hoped and, despite receiving in-principle capitalisation from the Department for Levelling Up, Housing and Communities (DLUHC) of £40 million for the financial year 2023/24, the council is financially vulnerable.

Cumberland is a large, sparsely populated rural area, with significant socio-economic deprivation by comparison. Service delivery by the former councils was relatively weak. The former councils were, by comparison, low gross spenders though there was an imbalance with lower average spend on 'people orientated' services and higher on the remainder. Sales, Fees and Charges income was below average when compared with nearest neighbours. Rigorous service planning and rebalancing of the budget is required to address the problem and to start to make a positive difference in service delivery.

Significant Financial Challenges

The original Medium Term Financial Plan for the council showed a balanced budget for the first year of operation (2023/24) but deficits in years 2 and 3. It is now likely that the council will need to use part of the in-principle Exceptional Financial Support agreed for 2023/24 and a significant amount (80%) of its General Balance Reserves to balance the 2023/24 budget. Deficits are still predicted for 2024/25 and 2025/26. The council has an ambitious plan to transform itself to ensure new ways of working and provide the opportunity for savings, but this has not progressed beyond high level planning and the funds and resources required to invest in the programme are not yet apparent.

An emerging risk is the receipt, in August 2023, by the council of an Equal Pay claim. 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.

Considering these challenges, we believe that the council needs to develop a Budget Recovery Plan and introduce a freeze on all non-essential revenue and capital spending.

Shared Vision and Ambition

The council has a Council Plan to 2027 which is aspirational, and we gained a strong sense of the council having a clear and consistent vision and values that are understood and informed. This provides a good platform to develop the collective responsibility to address the challenges. Governance is developing and there is evidence of some prioritisation being used to plan ahead but there is more work to do to balance strategic development and dealing with 'business as usual'. There is a vacancy control panel and director performance clinics have been created. The disaggregation programme is advancing in some areas quicker than expected but the financial risk is not being prominently managed.

The Need for Exceptional Financial Support (EFS)

We recognise the financial pressures and challenges Cumberland is facing and the need for EFS to mitigate the projected deficits and meet capacity challenges. The request to extend the council's in-principle support for 2023/24 into 2024/25 needs a clear focus and the 'golden triangle' of the statutory officers (the Chief Executive, Section 151 Officer and Monitoring Officer) need to ensure this is the utmost priority with appropriate transparency across the council and with Members. The capacity of the council's finance and legal team resources are an issue and financial reporting and budget planning are currently not timely or robust enough.

The actions the council has taken to restrain service expenditure in 2023/24 do not appear to be having a sufficient impact so far. The council should consider a special emergency Council Meeting or ensure a full briefing at forthcoming Executive or Full Council to provide the opportunity for the Chief Executive to lay out the full implications of the council's financial situation for all Members and set the scope for the Budget Recovery Plan.

The former councils had significant capital programmes that were carried over to the new council. Work has been undertaken to re-profile the expenditure against an original budget of £289.3 million for 2023/24. The expected outturn will be only £125.4 million. This clearly demonstrates that the council does not have the capacity to carry through its capital programme at this time and needs to reconsider the programme as a matter of urgency, given the challenging financial position it finds itself in.

At the time of writing, the council wishes to carry forward £26.2 million of the agreed £40 million in-principle Exceptional Financial Support (EFS) for 2023/24 into 2024/25 and this could assist hugely in balancing the 2024/25 revenue budget.

Addressing Income, Reserves and Assets

The former councils in 2021/22 collectively had slightly more Council Tax income relative to Net Revenue Expenditure (68.75%) than comparators in its nearest neighbour group. The Shadow Executive agreed to Council Tax being fully harmonised on 1 April 2023 with an average increase in the Band D Council Tax for Cumberland of 4.99%. However, based on the recent Budget Strategy report, that percentage is now only contributing 46.8% (£152.883 million) to the potential underfunding of the council's service costs.

In the year leading up to reorganisation, the council's reserves position worsened, as two of the former councils balanced their budgets by use of reserves. At 31 March 2023 total reserves were expected to be £90.8 million with the General Fund Balance (GFB) for 2023/24 estimated to be £37.7 million. This was later reduced to £28.350 million. Overspending on services and non-achievement of savings means that a total of £20.565 million of reserves is being used to balance the 2023/24 budget. At the end of the financial year the total General Fund Balances are now predicted to be only £7.85 million against a desired level of £28.5 million. The net budget for 2023/24 was £308.223 million so general fund reserves will only represent 2.55% of the net budget.

The council has an incomplete view of its assets but those identified are considerable with a net book value of £1.943 billion. However, the council does not currently have a strategy for utilising its asset base to reduce its financial stress; for generating capital receipts and attracting external income.

Urgent priority

<u>The projected position of the council's reserves at the end of 2023/24 represents an unacceptable risk. Though there are ring-fenced reserves and these are being reviewed to identify where reserves can be released, the General Fund Balance is expected to be effectively exhausted. The General Fund reserves position that the council is predicting for</u>

2024/25, is unsustainable. This suggests that the council cannot balance the 2024/25 budget without a capitalisation direction.

Unless the council can take significant and urgent action, they will start the 2024/25 financial year with a significant anticipated deficit that they are unlikely to rectify without a significant reduction in ongoing revenue expenditure. Based on current financial progress, this revenue reduction is unlikely to happen and, without reserves to support revenue expenditure, they must seek a capitalisation direction. We would recommend the development of a Recovery Programme with oversight through a Recovery Board. We have made other recommendations for improvement throughout our report.

1.2 Key Risks and Recommendations

Key risk	Risk rating (see details in Annex 1)	Recommendation (including Timeline)
1. The evidence, though dated, is that there are some significant issues to be addressed and the council's service delivery needs to improve, particularly in Education, Adult and Childrens Social Care and Public Health. There is a continuing risk of poor performance without robust service management strategies and plans, and management of performance.	6	1. The council should ensure that there are service plans in place for the start of the 2024/25 financial year and should institute formal performance reporting at least quarterly to the Executive. *March 2024*
		2. The council should also refocus its budget in the areas where costs are above average against its nearest neighbours or where significant pressures are being observed with the aim of generating savings that can address the budget deficit or be re-invested in the areas of Education, Adult and Childrens Social Care and Public Health. *March 2025*
		3. The council should undertake an overview of the needs of the area to fully inform its council Plan *March 2025*
2. The risk in managing its budget in 2023/24 is significant. We cannot see how the council can balance the budget in 2024/25 without maximising its use of the capitalisation direction and reserves. The council has a limited record of	9	4. The council should introduce a budget recovery plan with oversight from a Recovery Board and immediately freeze all non-essential revenue and capital spending. The plan needs to be supported by external expertise. *January 2024*

making savings given its recent creation.		
3. The council is currently predicting a significant deficit on its revenue budget for 2024/25 and 2025/26 and has no defined plan to meet that through savings or increased income.	9	5. The council's budget consultation exercise should focus on seeking the public's view on how a balanced budget for 2024/25 should be achieved and recognise that any improvement in service delivery will have to be deferred until a balanced budget has been delivered. *December 2023*
4. The council has not put its financial situation as its highest priority corporate risk and accordingly there is a danger that the council will fail to concentrate on solving its financial difficulties. We are concerned that reporting on financial progress has not highlighted the full scale of the council's risks.	4	6. The council should suspend its Transformation programme until it is confident of achieving a balanced budget unless any current transformation projects definitively assist in that. This should form part of the Budget Recovery plan. *January 2024*
5. The council is gaining significantly less Sales, Fees and Charges than comparable councils. It has only utilised the inherited Fees and Charges of the former councils that include a wide disparity in yield per head of local people in the three former councils.	4	7. The Budget Recovery Plan should include a review of Sales, Fees and Charges with the aim of increasing the yield the council achieves to at least the Unitary council average. *March 2025*
6. The council faces an indeterminate risk from the Equal Pay claim lodged against the council by employees of the former County Council.		
7. Though the council is ambitious, the financial situation is likely to limit those ambitions and we are not clear that Members have, to date, been provided	6	8. The council should call a special emergency Council Meeting or ensure a full briefing at forthcoming Executive or Full Council to provide the opportunity for the Chief

with the clarity that would enable recognition of this and enable focused attention on resolving the financial position.		Executive to lay out the full implications of the council's financial situation for all Members and set the scope for the Budget recovery Plan. *January 2024*
8. We are not certain that the Transformation programme the council has defined will be able to deliver the results sought. Transformation plans are too underdeveloped to give certainty and the council has a limited track record of delivering savings.	4	See earlier recommendations.
9. The actions the council has taken to restrain service expenditure in 2023/24 do not appear to be having a sufficient impact so far. The budget is likely to be significantly overspent and further predicted growth will create greater need for controls.	9	See earlier recommendations.
10. The yield from Council Tax is low by comparison to other similar councils. The council needs to increase the yield to support its revenue expenditure going forward.	3	9. The council should plan to maximise its Council Tax income over the medium term. *March 2025*
11. The Audit Committee does not appear to be exercising a strategic challenge to the Executive and this is further weakened by the lack of an independent presence on the Committee.	3	10. The Audit Committee should ensure it has the arrangements in place to challenge the Executive and there should be a strong independent presence on the Committee. *May 2024*
12. The financial support to the council needs strengthening. The Monitoring Officer and Section 151 Officer need to have a significant role along with the Chief Executive and Senior Leadership Team (SLT). This could involve a review of the SLT structure. The capacity of the council's finance team is such that financial reporting and	4	11. The position of finance and the statutory officers should be strengthened and the 'golden triangle' of statutory officers created to ensure a full role in corporate leadership on the issue. March 2024.
	4	12. There should be a review of the roles of the statutory officers and the capacity of the finance function to ensure it can deliver the financial support the council

budget planning is currently compromised.		needs in a timely way and identify appropriate investment in the team where necessary. March 2024
13. There is a limited risk from the incomplete accounts of one of the former councils.	2	
14. Failure to concentrate on performance management on the issues that matter to the council will hamper future budget planning and an understanding of priorities.	2	13. Performance management should be reviewed for its relevance and value in decision making. The focus of and reporting to the Executive should be standardised and regularised. *March 2024*
14. The council does not yet have a clear view of its capital requirements over the next years. This is being developed but is not likely to be ready before the start of the 2024/25 financial year.	3	14. We would strongly recommend that the council completes its review of the capital programme and the need for additional borrowing before it sets its revenue budget for 2024/25 with a focus on reducing the future burden on the revenue budget. *March 2024*
15. There are concerns about the management of the capital programme, the amount of slippage and the capacity of the council to spend the programme funding in the next few years, even with re-profiling. The links to wider financial and asset management are unclear currently.	3	15. The review of the capital programme should include reviewing the management of the programme and the need for investment in capacity. *March 2024*
16. The council does not yet have up-to-date and comprehensive policies on Treasury Management and Minimum Revenue Provision (MRP) and the council may have to rely on provisional calculations for some time.	2	16. Work on the matching of the existing loans portfolio to the council's borrowing needs to be completed in the short term; also determining the appropriate MRP calculation. *March 2024*
17. Though the council carries less debt in comparison to other similar councils, the current capital programme, which is undergoing review, requires borrowing. Taking on extra borrowing is a further risk to the council.	4	17. The council should not take on any further borrowing until it can demonstrate that it can balance its budget over the medium term period. *March 2024*

19. The position of the council's reserves predicted at the end of 2023/4 represents an unacceptable risk. Though there are ring-fenced reserves, the General Balance is expected to be effectively exhausted.	9	18. The council should ensure it robustly reviews its earmarked reserves and investments to increase the General Balance reserves and address pressures. *March 2024*
20. The General Fund reserves position that the Council is projecting for 2024/25 is unsustainable. There is a predicted shortfall in the council's revenue position of around £28.5 million that must be covered by reserves of only £8 million. On that basis, the council cannot balance the 2024/25 budget and has to consider seeking a further capitalisation direction.	9	19. The council should recognise that its 2024/25 budget is unlikely to be balanced given the lack of confidence in delivering savings, the limited reserves to cover any shortfall and other uncertainties the council must make provision for. If the council seeks further use of Exceptional Financial Support, it should ensure this is managed by an adequately experienced and resourced Recovery Board. *December 2023*
21. The council appears to have significant assets, and the release of some could assist the council's financial position, but there is no strategy for disposals at this point.	4	20. The council should prepare an asset disposal plan to generate capital receipts in the short term. *March 2024*

2 Introduction

2.1 Background

Cumberland Council is a unitary authority, first elected in May 2022, operating as a shadow authority until taking up its powers on 1 April 2023. The council replaced Cumbria County Council, Allerdale Borough Council, Carlisle City Council and Copeland Borough Council. It covers the northern and western side of the former Cumbria County Council area.

There are 46 councillors and the Labour Party have 30 seats thus forming the Executive. The council requested exceptional financial support from the Department for Levelling Up, Housing and Communities (DLUHC) for their first year of operation in 2023/24 to fund transformation and transition costs and have received in-principle capitalisation of £40 million.

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.

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.

2.2 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 six 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

Based on 2021 mid-year population estimates, Cumberland Council has a population of 273,900 in an area of just over 3,000 square kilometres, or about 1,160 square miles. This gives a population density of 90 people per hectare, significantly lower than its nearest neighbours or unitaries in the region. It has higher deprivation than the national average with an adjusted deprivation score of 44%.

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

Performance of the former councils

There is limited detail on the performance of services of the former councils but we undertook an analysis of performance based mainly on 2021/22 results to rank the 4 councils against each other; to indicate which of the councils were performing best; and to compare each council against the national average of nearest neighbours. There was variation in the historical performance of the former councils when compared against each other and their nearest neighbours. The main variations were:

- 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 nearest neighbours.
- Less waste is collected per head than average though less of it is recycled than the nearest neighbours
- The former councils were all worse than their nearest neighbours in collecting Council Tax.

Though the picture is mixed, it does suggest that of the 3 former District councils, Copeland performed consistently better than the other 2, though all Principal roads are maintained to a better standard than average. 3 former councils perform badly in Waste and Recycling and Allerdale and Carlisle had particular issues in Planning performance. For former County functions, there are weaknesses in all service areas by comparison with other County Councils. This highlights some of the challenges the new council faces.

Cost of services

We looked further 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 returns for 2021/22 and divided them by the population to give a cost per head. For the former Cumbria County Council, we divided the reported costs by the populations of Cumberland Council and Westmorland and Furness Council.

For Cumberland we identified a total service cost per head of population of £1345.25. This compares to an average of £1677.18 for the six other northwest unitary councils. Despite this, there is still scope for making service cost savings. However, compared to the other northwest unitary councils, the former Cumbria councils spent less than 56% of the average per head for a grouping of Education, Social Care, Public Health and Housing services (£759.13 to £1357.14) but 59% more for the grouping of Highways, Cultural, Environmental and Planning services (£328.37 to £206.63). Reducing this latter group of services to average cost per head could reduce costs by £27.6 million. We also found wide variations in the relative cost per head of the former district councils for Housing; Culture; Environmental and Planning services.

Risks

1. The evidence, though dated, is that the area has some significant issues to be addressed and the council's service delivery needs to improve to impact on those issues, particularly in Education, Adult and Childrens Social Care and Public Health. There is a continuing risk of poor performance without robust service management strategies as well as plans and management of performance.

Recommendations

1. The council should ensure that there are service plans in place for the start of the 2024/25 financial year and should institute formal performance reporting at least quarterly to the Executive.

2. The council should also refocus its budget in the areas where costs are above average against its nearest neighbours or where significant pressures are being observed with the aim of generating savings that can address the budget deficit or be re-invested in the areas of Education, Adult and Childrens Social Care and Public Health

3. The council should undertake an overview of the needs of the area to complement its Council Plan and serve as a guide to prioritise around risk and vulnerability and the future outcomes it hopes to achieve.

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, including:

- **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 23/24**
- **actions the council has and plans to take to reduce 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 there 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

Findings, issues, evidence and analysis

Medium Term Financial Plan (MTFP)

In the year prior to reorganisation (2022/23), the legacy councils mainly balanced their budgets by use of reserves despite the former County council having a significant savings target for the succeeding four years. The three year MTFP for the council adopted in February 2023 showed a balanced budget for 2023/24 requiring a total of £24.732 million in-year savings, of which £15.362 million were to be recurring savings and anticipated the use of £11.723 million of reserves. In the 2024/25 year there was anticipated to be a budget deficit of £27.366 million and in 2025/26 a deficit of £30.657 million. There were no proposals for savings or use of reserves to meet those deficits.

The Quarter 1 financial update presented to the Executive on the 3 October 2023, states that the revenue budget is currently forecast to be overspent by £28.914 million. On the 31 October 2023, the Executive received a report on the council's budget setting process for 2024/25. The Executive was told that the council would achieve a balanced budget by the use of almost £30 million of reserves. The report updates the council's MTFP for 2024/25. The base budget is increased to £315.626 million with a funding gap of £27.336 million to be met. Further growth for 2025/26 suggests a funding gap for that year of £30.657 million.

In the budget setting process for 2024/25, the financial pressures faced by the council and a strategy to deliver a balanced budget in 2024/25 were outlined. The Executive was told *'The financial challenges faced by the Authority present a difficult budget setting context which will require difficult choices to be made about spending priorities. Securing financial sustainability will require the Authority to deliver savings and a reduction in the reliance on reserves to meet budget shortfalls. Delivery of savings will require a focus on service reform alongside meaningful engagement with Council taxpayers and other stakeholders about the services that can be provided. It will also require investment in support functions such as finance, procurement and digital transformation to ensure the Authority is equipped to meet futures challenges.' 'Work is currently in progress to update this (the 2024/25 budget) in light of the current year's pressures and forecasts identified….to enhance our* *understanding of the financial pressures and risks faced by the Authority and identify mitigations where possible. This will include undertaking further deep-dive exercises to supplement those carried out in response to the forecast overspending identified…'*

In the report to the Executive however, there was no detail on how the council was to meet the anticipated deficit. We are aware that officers should have prepared savings proposals, but these have not yet been identified for Members in the report for use in public consultation on the budget. Instead, the budget consultation is to concentrate on: Council Tax proposals; whether the council are prioritising resources in the rights areas, and; suggestions for how they might do things differently.

The 2024/25 Budget Strategy Report says that the Authority's borrowing strategy for 2024/25 will be included in the Authority's Treasury Management Strategy Statement (TMSS) that will be developed alongside the 2024/25 budget. There is more detail on this later in this report.

We understand that the Section 151 Officer briefed senior officers in November 2023 that in-year monitoring had identified significant budget pressures in Children's and Adults' Services over and above the increased budget, and that corporate savings had not been delivered. Some actions were in hand including deep dive sessions with continuing reviews to reduce net expenditure by £5 million, reviewing other efficiencies in staffing and non-essential spend, and a review of all balances and reserves.

The Executive are to receive a report on 15 December 2023 to update them on the financial position. This uses Q2 financial monitoring. The headlines are:

- net expenditure is expected to increase from the budget of £305.842 million to £314.716 million;
- £29.992 million overspending by services, offset by £12.578 million service mitigations and use of £8.540 million of Exceptional Finance Support;
- to produce a balanced budget at the end of 2023/24 a further £8.874 million of balances will be required.

Fees and charges

The council adopted a Fees and Charges policy for 2023/24 which saw charges generally rise at the rate of inflation. Any increases outside of that policy, would be presented to the Executive. This policy may not produce the result the council needs.

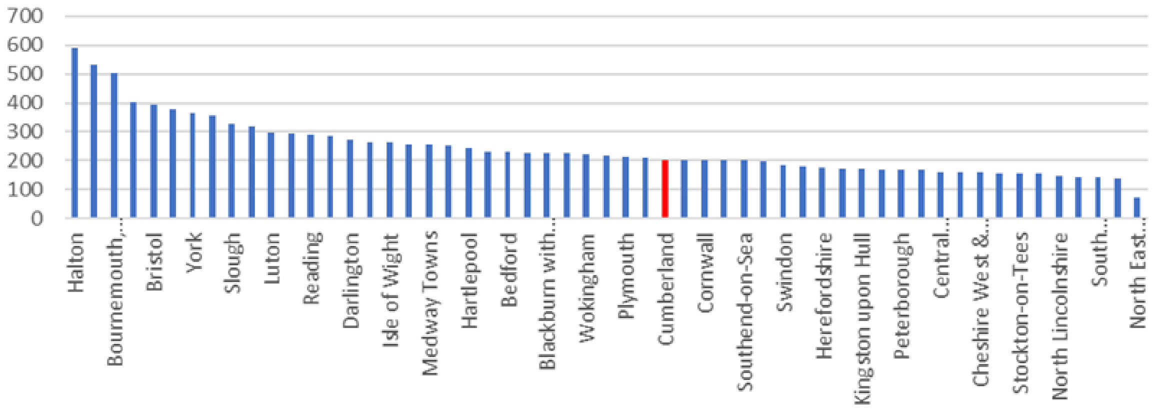

Figure 1: Average yield per head of population against unitary councils

Based on the 2021/22 estimate returns by unitary councils, the average yield of Sales, Fees and Charges was £242.52 per head of population. The former councils that now constitute the council's average was lower at £203.42. In addition, there was significant disparity between the former councils – Copeland achieved 4 times the income per head than Carlisle. Improving the yield to the average of unitary councils (at 2021/22 levels) could increase income by £10.7 million.

Longer term transformation

The council has an ambitious plan to transform itself to ensure new ways of working and provide the opportunity for savings. We have seen supporting material prepared on the 'deep dives' for some of the service areas. They detail the extent of the problem, propose solutions and identify the extent of the work to be done. Some solutions are only costed at a high level with some figures of the costs of carrying out work to create the solution but no definition of the savings that will be made. The headlines of the programme are shown in the table below:

	Investment (£)				Savings (£)			
	23/24	24/25	25/26	26/27	23/24	24/25	25/26	26/27
Adults Services transformation	250k	2.5m	2.3m	tbc	2m	4m	8m	8m
Children's Services transformation	800k	3.5m	1.2m	tbc	1.5m	3.5m	8m	10m
People, Resources and reducing agency/EPW	1.1m	4m	4m	tbc	0	2.5m	5m	5m
Assets and Fleet Management	0	500k	0	tbc	0	0	3m	tbc
Customer and pre-front door	250k	2.75m	tbc	tbc	0	1m	3m	5m
Commissioning and commercialisation	300k	250k	tbc	tbc	0	500k	2m	tbc
ICT – foundation systems	1.1m	4.5m	3m	tbc	0	250k	500k	3m
Transition	0	0	0	tbc	0	0	0	0
Improvement and efficiency	0	0	0	tbc	1.75m	6m	0	0
Total	**£3.8m**	**£18m**	**£10.5m**	**tbc**	**£5.25m**	**£17.75m**	**£29.5m**	**£31m**

Table 1: Transformation investment and savings 2023/24 to 2026/27

It is too early to be confident that this Transformation plan can deliver the level of savings that are being forecast in this table. Many of the individual projects that sit below the headings are labelled as 'TBC' indicating the early stage of development of the proposal. In addition, the council has to provide the resources outlined to invest in the transformation activity. The amounts required for this are significant and must be found from existing budgets which are already proposed to be overspent. We noted an absence of projects related to the Place Directorate – the area of the council containing above average cost services which should be a focus for the council.

Equal Pay

An emerging risk is the receipt in August by the council of an Equal Pay claim relating to over 400 employees of the former county council now employed by the 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.

Risks

2. The risk in managing its budget in 2023/24 is significant. We cannot see how the council can balance the budget in 2024/25 without maximising its use of the capitalisation direction and reserves. The council has a limited record of making savings given its recent creation.

3. The council is currently predicting a significant deficit on its revenue budget for 2024/25 and 2025/26 and has no defined plan to meet that through savings or increased income.

4. The council has not put its financial situation as its highest priority corporate risk and accordingly there is a danger that the council will fail to concentrate on solving its financial difficulties. We are concerned that reporting on financial progress has not highlighted the full scale of the council's risks.

5. The council is gaining significantly less Sales, Fees and Charges than comparable councils. It has only utilised the inherited Fees and Charges of the three former councils that include a wide disparity in yield per head of population in the three former councils.

6. 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 introduce a budget recovery plan with oversight from a Recovery Board and immediately freeze all non-essential revenue and capital spending. The plan needs to be supported by external expertise.

5. The council's budget consultation exercise should focus on seeking the public's view on how a balanced budget for 2024/25 should be achieved and recognise that any improvement in service delivery will have to be deferred until a balanced budget has been delivered.

6. The council should suspend its Transformation programme until it is confident of achieving a balanced budget. Unless any current transformation projects definitively assist in that, this should form part of the Budget Recovery plan.

7. The council should call a special emergency Council Meeting or ensure a full briefing at forthcoming Executive or Full Council to provide the opportunity for the Chief Executive to layout the full implications of the council's financial situation for all Members and set the scope for the Budget Recovery Plan.

3.3 Review Area 4: FINANCIAL MANAGEMENT/ SUSTAINABILITY

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's 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

Financial management, risk management, and ability to deliver financial sustainability

Many aspects of financial management and sustainability are still developing and this section of the report considers those that are relevant and in place, whilst assessing progress in other areas. Borrowing capacity, reserves and savings plans are considered throughout the report. In 2022, the council adopted a Council Plan to 2027. The plan is aspirational and at a high level and is developing some directions for service delivery or refocusing of activities. The only direct reference to finance is:

'We will manage our finances sustainably and deliver value for money for our residents as we continue to operate in a challenging budget context. Our decisions will be the result of robust processes and have long term benefits whilst improving our financial health.'

Within the council's constitution, the Budget and Policy Framework Rules detail that the Executive must submit the budget and estimates to the council and consider any objections by council. 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's constitution includes Finance Procedure Rules and Contract Procedure Rules. These are comprehensive and in accordance with good practice.
In our interviews we gained a strong sense of the council having a clear and consistent vision, and values that were understood and informed. Governance was developing and there was evidence of prioritisation being used to plan ahead but there was not a sufficient balance being struck between being strategic and dealing with 'business as usual'. Setting clear milestones aligned to priorities over the next 6, 12 and 18 months will be key in addressing the strategic challenges but also some real practical challenges. This will help

the council staff maintain their confidence and commitment to the council's vision and values.

There was a concern about capability and capacity and the stress this will put on management over the next 6 to 12 months. We noted that the council has created a vacancy control panel, in addition to director performance clinics during the second quarter of 2023/24. Serviced by the council's performance team and a policy and scrutiny project officer, reports that contain relevant data and text, including Key Performance Indicators (KPIs) (where available), are provided for the clinics attended by the relevant Director, portfolio holder(s), council leader, statutory Deputy Leader, Chief Executive and Assistant Chief Executive. The plan includes budget performance, where financial pressures or cost savings are identified, and consideration is given to future budget adjustments. Though extra resource had been created through the Programme Management Office the disaggregation programme still had some challenges and delays. Careful management is needed to strike the right balance in resources to support change at a corporate level and service specific needs.

We were told that Members were fully aware of the financial situation of the council but we had practical concerns. In October 2023, the Audit Committee were told that 'Deliver a Financially Sustainable Authority' was the second highest Corporate Risk and that the risk was assessed as a third higher than the annual target. The Audit Committee was told that the council is aware of its current financial position and mitigations are being discussed in deep dive reviews of service pressures and further controls will be put in place. However, we consider that the Audit Committee (even though chaired by a member of the opposition party) should have a greater role in challenging the council's financial position. The report they had in October on the risk rating should have alerted them to a potential issue that needed attention. We did, however, recognise that a further risk was added to reflect the Children's Services pressures.

The council's Chief Executive has a management structure that includes a Director of Resources and a Director of Transformation. Reporting to the Director of Resources post is a Chief Finance Officer (Section 151). The Monitoring Officer also reports to the Director of Transformation. It is important that the 'golden triangle' of the statutory officers is strong and both officers can have a full role at the corporate leadership. We recognise that both officers sit on the leadership team but both the Section 151 Officer and Monitoring Officer are third-tier officer posts. We are concerned about the capacity of the council's finance and legal team's resources and recommend that finance resources in particular are the highest priority for the council. We heard that financial reporting is late; budget planning has started late; Business Partners are stretched across portfolio areas, and we were surprised that finance staff are not identified as lead officer support to Directorate performance clinics. We understand that the finance team are drawing information from 4 different finance systems now and work arounds and manual interventions are needed to produce financial statements and meet the accounting codes and reporting standards. These areas all need prompt attention.

Potential liabilities from former councils

The Audit Committee was told on 19 October 2023 about the external audits for former councils. They were advised there was an expectation that the draft financial statements for Allerdale and Carlisle for 2022/23 would be received by the end of September 2023 and final audit work would commence on receipt of those statements with the aim of giving their opinion in December 2023. Copeland Borough Council's accounts for 2018/19 remained open but were 85% to 90% complete. Officers advised that the audit would recommence in January 2024 with a view to this being completed and giving a solid base to produce the accounts. Copeland Borough Council's accounts for 2019/20, 2020/21, 2021/22 and 2022/23 were still at a draft stage and not completed. There was an £8 million asset-based change for 2018/19 due to under-valued properties that had still to be resolved. The impact of any issues arising from the audit need close attention.

Service performance

We have already explored the legacy from the previous councils such that the area suffers from higher deprivation than average. Performance of the former district councils is mixed but for former county functions, there are weaknesses in all service areas by comparison with other county councils. Cost of services overall is lower than comparators but there was a significant imbalance with the service grouping of Education, Social Care, Public Health and Housing services spending less than average but significantly more for the grouping of Highways, Cultural, Environmental and Planning services.

The council has recognised that various issues, including the quality of some data and the aggregation of former district data in some services, have slowed progress in developing performance management but are being addressed. The performance material produced by the council that we have seen demonstrates a mix of high and low level indicators and measures of outputs, processes, performance, quality and satisfaction. It has been produced by each service and focuses primarily on their needs. To be useful at a corporate level it will need to be rationalised, standardised and organised into a hierarchy of importance.

Council Tax

In 2021/22, the former councils collectively had slightly more Council Tax income relative to Net Revenue Expenditure (NRE) (68.75%) than comparators. In February 2023, the Shadow Executive agreed to Council Tax being fully harmonised on 1 April 2023 with an average increase in the Band D Council Tax for Cumberland of 4.99%. However, based on the recent Budget Strategy report, the percentage of council tax relative to NRE is now only 46.8% contributing to the potential underfunding of the council's service costs.

Risks

7. Though the council is ambitious, the financial situation is likely to limit those ambitions and we are not clear that Members have, to date, been provided with the clarity that would enable recognition of this and enable focused attention on resolving the financial position.

8. We are not certain that the Transformation programme the council has defined will be able to deliver the results sought. Transformation plans are too underdeveloped to give certainty and the council has a limited track record of delivering savings.

9. The actions the council has taken to restrain service expenditure in 2023/24 do not appear to be having a sufficient impact so far. The budget is likely to be significantly overspent and further predicted growth will create greater need for controls.

10. The yield from Council Tax is low by comparison to comparative councils. The council needs to increase the yield to support its revenue expenditure going forward.

11. The Audit Committee does not appear to be exercising a strategic challenge to the Executive and this is further weakened by the lack of an independent presence on the Committee.

12. The financial support to the council needs strengthening. The Monitoring Officer and Section 151 Officer need to have a significant role along with the Chief Executive and SLT. This could involve a review of the SLT structure. The capacity of the

council's finance team is such that financial reporting and budget planning is currently compromised.

12. There is a limited risk from the incomplete accounts of one of the former council, Copeland.

13. Failure to focus performance management on the issues that matter to the council will hamper future budget planning and an understanding of priorities.

Recommendations

8. The council should call a special emergency Council Meeting or ensure a full briefing at forthcoming Executive or Full Council to provide the opportunity for the Chief Executive to lay out the full implications of the council's financial situation for all Members and set the scope for the Budget Recovery Plan.

9. The council should plan to maximise its Council Tax income over the medium term.

10. The Audit Committee should ensure it has the arrangements in place to challenge the Executive and there should be a strong independent presence on the Committee.

11. The position of finance should be strengthened and the 'golden triangle' of statutory officers created to ensure a full role in corporate leadership.

12. There should be a review of the roles of the statutory officers and the capacity of the finance function to ensure it can deliver the financial support the council needs in a timely way and identify appropriate investment in the team where necessary.

13. Performance management should be reviewed for its relevance and value in decision making. The focus of and reporting to the Executive should be standardised and regularised.

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 former councils had significant capital programmes which were carried over to the new council. The new capital programme was agreed in February 2023. This noted that several schemes were duplicated in the former councils' plans primarily related to Town Deal and Future High Street Funding received by the district councils and passed to the county council for delivery of the works. These schemes were still included in the programme of expenditure and financing recommended but were needing to be removed once correct allocations and profiling were established. The programme as agreed totals £283.536 million.

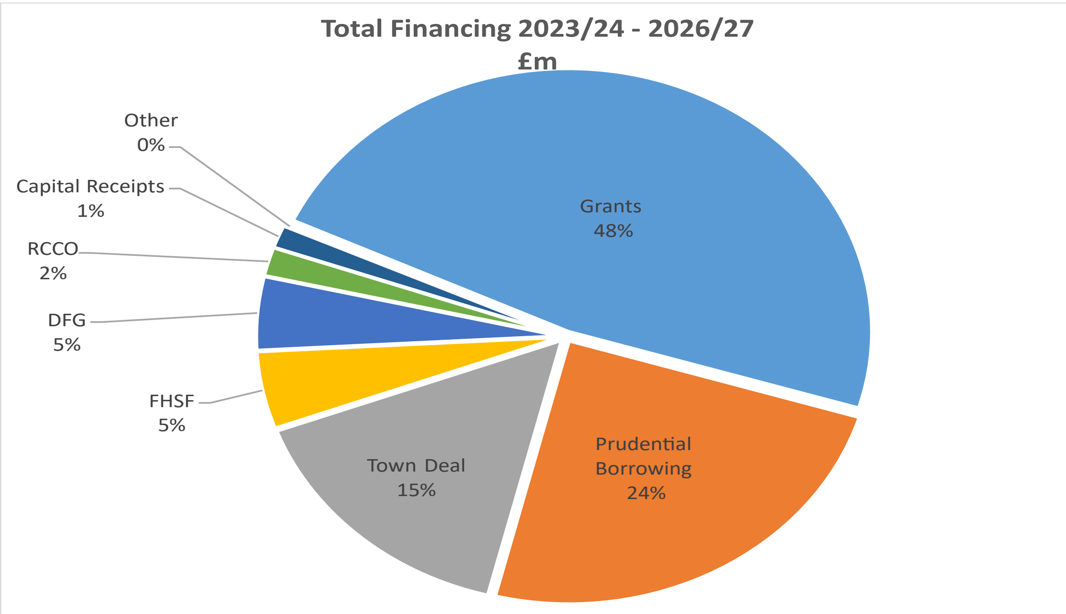

Figure 2: Financing of the capital programme 2023/24 to 2026/27

This programme only required a revenue contribution of £4.96 million in 2023/24. However, it does require prudential borrowing of £68.642 million and this borrowing requirement was heavily biased (as at February 2023) to requirements in 2023/24 (£33.912 million) and 2024/25 (£15.555 million). The council estimated that at 1 April 2023 it was under borrowed by £77 million. We noted the Quarter 1 financial update which says that no new external borrowing was undertaken during the three-month period ending 30 June 2023.

Following completion of provisional capital outturn statements for 2022/23, work is in progress to update the capital programme to reflect budget carry forwards and reprofiling of the capital programme across financial years. Initial forecasts of capital expenditure for the year to March 2024 will be included in the Quarter 2 Finance Report. As such, the council's full intentions for the future capital programme cannot be clearly identified. In general, the intention is to continue the principles adopted previously by the former councils. It is important that any new borrowing is challenged considering the criticality of the council's financial position. Any refinancing risks also need to be carefully considered.

In interviews we understood there were concerns about the management of the programme and the potential for slippage, even with re-profiling.

Governance and scrutiny

The council has continued to utilise a Programme Management Office approach to manage the capital programme to ensure appropriateness, control and delivery, but the links to wider financial and asset management are unclear at this time. The council has engaged a consultant to work on the development of the Capital Strategy.

A draft Capital Strategy has been produced in October 2023 and details 4 principles:

- manage the impact of capital investment decisions on our revenue budgets promoting capital investment which supports invest to save outcomes and which actively contribute to the Authority's corporate priorities.
- optimise the availability of capital funding where that funding supports the Authority's priorities reviewing existing assets and disposing of surplus assets so that the capital receipts generated can be allocated to finance the capital programme and support delivery of council priorities.
- ensure we have effective pre and post project appraisal.
- performance manage our capital programme.

This will be important in tying the financial and asset management considerations together.

The Q2 figures reported to the Executive on 15 December 2023 indicate a significant change in the capital programme. The current capital budget is £289.343 million, comprising: £174.107 million approved budget for 2023/24 (approved February 2023): £73.674 million budget carry forward from 2022/23: £40.000 million approved for exceptional financial support[1] and further budget adjustments of £1.562 million as detailed. The projected Capital Outturn position for 2023/24 shows: a projected outturn position of £125.411 million; an underspend compared to a budget of £163.933 million; expected budget carry forward requests (re-profiling adjustments) of £160.437 million, giving an overall favourable variance (net of carry forward requests) of £3.496 million.

This clearly demonstrates that the council does not have the capacity to carry through its capital programme at this time and needs to consider carefully how it can develop the capability to carry forward the programme in the next and succeeding years.

The report also makes clear that the council wishes to carry forward £26.2 million, at the time of writing, of Exceptional Financial Support to 2024/25 and this could assist hugely in balancing the 2024/25 revenue budget.

The delay in the capital spend has also avoided the council having to borrow to fund the programme thus assisting the restraining of revenue expenditure for 2023/24.

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[1] *Exceptional Financial Support has previously been treated differently in the MTFP and shown as a part of Revenue Expenditure.*

Treasury management

The council does not yet have up-to-date and comprehensive policies on Treasury Management and Minimum Revenue Provision (MRP). In October 2023, the Executive was told these will be included in the Authority’s Treasury Management Strategy Statement (TMSS) that will be developed alongside the 2024/25 budget. The TMSS will also incorporate prudential and treasury indicators for 2024/25 and subsequent years - including the Authority’s Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels. To limit the impact of the current elevated interest rates on the revenue budget, development of the capital budget will include considering opportunities to remove or reprofile capital expenditure currently included in the capital programme and funded from borrowing, and to limit any additional unfunded capital expenditure which does not generate revenue savings sufficient to offset any additional interest and MRP costs related to that expenditure.

Minimum Revenue Provision (MRP)

Prior to Local Government Reorganisation (LGR) the former 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.

Provisional MRP calculations for 2023/24 and subsequent years are being prepared based on the balance sheet disaggregation work carried out in advance of LGR; the 2022/23 provisional capital outturn positions of the four former councils and the current four-year capital programme. Finalisation of the MRP calculations for 2023/24 is dependent on a number of outstanding tasks including: disaggregation of the final balance sheet of Cumbria County Council; preparation of outstanding statement of accounts for Copeland Borough Council; completion of the external audits of all legacy councils; confirmation of the opening balance sheet position of Cumberland Council; reviewing the estimated useful lives of assets associated with capital expenditure in 2022/23; reviewing and updating Private Finance Initiative (PFI) models used to disaggregate unitary payments and inform the required accounting treatment.

To gain an understanding of how well the existing loans portfolio matches the council’s planned borrowing needs, work on the MRP calculations (and Capital Financing Requirement (CFR) projections) has been accompanied by ongoing work to map out: the maturity profile of existing loan debt transferring to the council; the impact of unfunded capital expenditure included in the capital programme on the council’s projected CFR in future years; the council’s projected future external borrowing requirements; and the impact of additional borrowing on the maturity profile of the council’s loan debt.

Commercial strategy

The council does not have a commercial strategy with the intention of generating commercial income although the council owns jointly with Westmorland and Furness 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.

Risks

14. The council does not yet have a clear view of its capital requirements over the next few years. This is being developed but is not likely to be ready before the start of the 2024/25 financial year.

15. There are concerns about the management of the capital programme, the amount of slippage and the capacity of the council to spend the programme funding in the next few years, even with re-profiling. The links to wider financial and asset management are unclear currently.

16. The council does not yet have up-to-date and comprehensive policies on Treasury Management and Minimum Revenue Provision (MRP) and the council may have to rely on provisional calculations for some time.

Recommendations

13. We would strongly recommend that the council completes its review of the capital programme and the need for additional borrowing before it sets its revenue budget for 2024/25 with a focus on reducing the future burden on the revenue budget.

14. The review should include reviewing the management of the programme and the need for investment in capacity.

15. Work on the matching of the existing loans portfolio to the council's borrowing needs to be completed in the short term; also determining the appropriate MRP calculation.

3.5 Review Area 6: COMMERCIAL ASSETS/DEBT

An assessment of a 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.**
- **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

The Council has very limited commercial investment so the focus of this section is on the progress made with asset management, borrowing and reserves.

Borrowing

The following table details the council's allocation of current long term borrowing and investments novating from the former councils as at 31 December 2022:

External borrowing and investments	Principal (as at 31 Dec '22) £m	Average Interest Rate %	Average Life Years
Total External Borrowing	260.9	3.85	26.3
Total Investments (including CCLA)	183.3	3.08	< 1 year
Net Debt	77.6		

Table 2: Borrowing and investments at 31 December 2022

We noted the Quarter 1 financial update which says that no new external borrowing was undertaken during the three month period ending 30 June 2023. However, the current capital programme requires prudential borrowing of £68.642 million.

The Budget 2024/25 Strategy Report of October 2023 says the Authority's borrowing strategy for 2024/25 will be included in the Authority's Treasury Management Strategy Statement (TMSS) that will be developed alongside the 2024/25 budget. The TMSS will also incorporate prudential and treasury indicators for 2024/25 and subsequent years - including the Authority's Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels. At 1 April 2023 the council calculated that it was under borrowed by £77 million.

Reserves

In the year prior to LGR, the council's reserves position worsened, as two of the former councils balanced their budgets by use of reserves. At the time of setting the MTFP in February 2023, total reserves at 31 March 2023 were expected to be £90.8 million with the General Fund Balance (GFB) for 2023/24 estimated to be £37.7 million as at 1 April 2023. The report on Q1 to the Executive indicated that in the event, the General Fund Balance at 1 April 2023 had been reduced to £28.350 million.

The Q1 report demonstrates that at 31 March 2024, the council will have a balance of only £1.016 million in General Fund reserves and £75.591 million in earmarked reserves. The level of General Reserves is below the levels we would expect and below the level recommended by the council's Chief Finance Officer when the Shadow Executive agreed the budget in February 2023: *'The appropriateness of the level of reserves can only be judged in the context of the Council's longer-term plans and an exercise has been undertaken to review the level of reserves through the use of a risk assessment matrix. The findings of this exercise suggested that a prudent range of reserves of between £9 million and £19.5 million will be required as a general working capital/ contingency to cushion the Council against unexpected events and emergencies.'*

The report to the Executive on 15 December 2023 tells the Executive that following a review, the Section 151 officer has highlighted the position of the General Fund Reserves with the Senior Leadership Team (SLT). Overspending on services and non-achievement of savings means that a total of £20.565 million of reserves is being used to balance the 2023/24 budget. Despite urgent review of earmarked balances and action taken to mitigate the use of the General Fund Balances the expectation is that at 31 March 2024, the total General Fund Balances are predicted to be only £7.85 million. There were expected to be earmarked balances of £75.872 million but review suggested that of these £54 million was not available other than for the ringfenced purpose.

The SLT were further advised that balances needed to be around £28.5 million to ensure the council has the resources to adequately cover the risks from potential risks of overspending on services, non-achievement of savings and transformation as well as increased inflation and increased service demand.

Asset management

The council has an incomplete view of its assets as the assets to be novated from the former Copeland Council have not been audited. The assets identified by the council are considerable with a net book value of £1.943 billion. The council is starting to develop a Corporate Landlord approach and its budget shows a surplus on the function of asset management. An evidence-based approach to assets is being developed based on a Corporate Asset Management Plan (to be delivered in November 2023) and Service Asset Management Plans with Officer and Member Governance. It is understood that Members are not yet in agreement with a programme of rationalisation and the concept of hybrid/agile working is recognised but not developed. As such the council does not have a strategy for utilising its asset base to reduce its financial stress; for generating capital receipts and attracting external income. The council has made some steps through Joint Planning Days with other public sector partners but progress has not been as quick as hoped for.

Risks

17. Though the council carries less debt in comparison to other councils, the current capital programme, which is undergoing review, requires borrowing. Taking on extra borrowing is a further risk to the council.

18. The position of the council's reserves predicted at the end of 2023/24 represents an unacceptable risk. Though there are ring-fenced reserves, the General Balance is expected to be effectively exhausted.

19. The General Fund reserves position the council is predicting for 2024/25 is unsustainable. The prediction that there is a predicted shortfall in the council's revenue position of around £28.5 million that must be covered by reserves of only £8m suggests that the council cannot balance the 2024/25 and has to consider seeking a further capitalisation direction.

20. The council appears to have significant assets, and the release of some of these could assist the council's financial position, but there is no strategy for disposals at this point.

Recommendations

17. The council should take on no further borrowing until the council can demonstrate that it can balance its budget over the medium term period.

18. The council should ensure it robustly reviews its earmarked reserves and investments to increase the General Balance reserves and address pressures.

19. The council should recognise that its 2024/25 budget is unlikely to be balanced given the confidence in delivering savings, the limited reserves to cover any shortfall and other uncertainties the council must make provision for. If the council seeks further use of Exceptional Financial Support, it should ensure this is managed by an adequately experienced and resourced Recovery Board.

20. The council should prepare an asset disposal plan to generate capital receipts in the short term.

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.

Annex 2 – Documents Reviewed

- Budget 2023-24 and Medium Term Financial Plan General Fund Revenue and Capital
- Budget Strategy 2024-25
- Cumberland Council Plan 2023 to 2027
- Finance Report - Quarter 1 April to June 2023
- Item 7 - Risk Management Progress Report App 1
- Item 7 - Risk Management Progress Report App 2
- Joint Disaggregation Group Update (1)
- Joint Executive Committee - Agenda and Reports 13 November 2023
- Part 3 Section 4 - Budget and Policy Framework Procedure Rules (1)
- Part 3 Section 4 - Budget and Policy Framework Procedure Rules
- Part 3 Section 6 - Finance Procedure Rules
- Part 3 Section 7 - Contract Procedure Rules
- Part 8 - Senior Management Structure
- Finance Report - Quarter 1 April to June 2023
- DEEP DIVE - Childrens Health & Wellbeing 07.09.23 (FINAL)
- DEEP DIVE - Business Change and Transformation v3
- DEEP DIVE - ASCH efficiencies 2023v1
- Service Performance Monitoring: perf_clinic_narrative; ace_pc_121023; ace_slides_Q1 Performance clinic; adult_SCH_pc_270923; ASC_slides_performance clinic 27.09 v3; bt_c_pc_101023; children_pc_241023; place_pc_241023; publichealth_pc_311023; resources_pc_210923
- 20230822 - Transformation Planning
- MRP Calculations File Note
- Asset Register – combined; fleet; Land and Buildings split
- 07. Independent 3rd Party Valuations for Investment Properties
- Contracts Register
- 10. Governance Documents for Cumbria Holding Limited
- Interim & Vacancy SLT24102023
- DRAFT Capital Strategy - October 2023
- MRP: Audits; Legal advice; Policy
- Cumberland Risk Management Framework: Cumberland Strategic Risk Register as at 10.10.2023; Risk Management File Note
- Report to Executive – 15 December 2023: Finance Report – Quarter 2 (April to September) 2023
- Report to Executive – 15 December 2023: Launch of Budget Consultation 2024/25

Annex 3 – Interviews Conducted

- Chief Executive
- Chief Finance Officer – S151
- Director of Resources (to cover Assets and Fleet in absence of Assistant Director)
- Chief Legal Officer - Monitoring Officer
- Director of Business Transformation and Change
- Assistant Chief Executive
- Group Accountant
- Leader of the Council
- Group Accountant - People services
- Chair of Audit Committee
- Group Accountant - Corporate inc. Capital
- External Auditor
- Head of Internal Audit
- Finance Lead Member
- Leader of the Opposition

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