

**HAMPSHIRE COUNTY COUNCIL
Decision Report**

Decision Maker:	Cabinet
Date:	25 June 2012
Title:	2011/12 – end of year financial report
Reference:	3924
Report From:	Director of Corporate Resources

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1. Executive Summary

- 1.1. This report provides a summary of the 2011/12 final accounts. The draft statement of accounts will be submitted for audit on the 30 June 2012 and reported to the Audit Committee in September, in conjunction with the Audit Commission's Governance report on the accounts.
- 1.2. Service cash-limited expenditure was £13.7m lower than budgeted against an overall gross budget of over £1.9bn (0.72%). This position reflects the continuing financial strategy of achieving savings in the early part of the CSR period, which can then be used to meet the cost of change and invest to save or transformational projects in future years.
- 1.3. The position for each of the services is summarised in the table below.

	(Under) / Over Spend £M
Adult Services	(2.1)
Children's Services – Non Schools	(4.9)
Environment	(1.3)
Policy and Resources	
Central support services	(4.3)
Other services	(1.1)
Total	<u><u>(13.7)</u></u>

- 1.4. The underspend in Adult Services relates mainly to additional funding that was received at the end of the year that was being spent in partnership with the NHS and PCT. Due to the late notification of the funding, Cabinet have already agreed to carry forward any underspends on these budgets in order to continue the services into the new year.

- 1.5. The underspend in Children Services is due to the early implementation of savings in respect of Services for Young People and Youth Support Services, together with the release of unallocated contingencies of £1.5m. This has been offset by an overspend of just over £2m in respect of Children Looked After as a result of increasing numbers and more expensive placements.
- 1.6. The final outturn position for Environment matches closely the budget monitoring position reported at the end of the third quarter. Savings of £1.3m have been achieved mainly as a result of vacancies across the Department and the early achievement of 2012/13 savings.
- 1.7. Policy and Resources also achieved significant planned savings in advance of 2012/13, mainly as a result of staff savings, which continues the trend in recent years of achieving savings in order to provide funding for the implementation of the Corporate Services Review, in particular, the investment required for the Integrated Business Centre and the procurement of the Private Sector Twist.
- 1.8. This strategy of underspending will ensure that the implementation costs resulting from the Corporate Services Review will not require any additional revenue or capital funding to support the costs of change. Although the anticipation is that the investment will result in additional efficiency savings and / or attract additional business which will contribute to the Council's overall budget.
- 1.9. Service underspendings have been transferred to earmarked reserves for use by the respective service to meet restructuring and investment costs associated with the change agenda, in accordance with the revised financial management policy.
- 1.10. Savings on non-cash limited budgets, total £8.7 million mainly as a result of improved Treasury Management activity and unused contingencies. It is proposed that General Reserves are maintained at 2.5% of the Budget Requirement and that any excess underspend is transferred to the Capital Payments Reserve to provide funding for future strategic land acquisitions.
- 1.11. The Medium Term Financial Strategy Update report presented elsewhere on this agenda outlines the continuing difficult financial picture not only to the end of the current CSR period, but also following into 2015/16. It is therefore recommended that a review, consolidation and rationalisation of earmarked reserves is undertaken in line with the strategy in Section 3.
- 1.12. The report also recommends approval of
 - the annual report on the operation of the treasury management strategy, for subsequent approval by the County Council
 - the council's end of year prudential indicators
 - a revised capital financing plan for 2011/12

2. 2011/12 Final accounts

Service cash limits

- 2.1. The table below summarises the net outturn position for each Department compared to the final cash limit for the year. The figures exclude schools spending but include cost of change paid for during 2011/12 which has for the most part been absorbed within the Departments bottom line budgets for the year :

	(Under) / Over Spend £M
Adult Services	(2.1)
Children's Services	(4.9)
Environment	(1.3)
Policy and Resources	
Central support services	(4.3)
Other services	(1.1)
Total	<u>(13.7)</u>

- 2.2. All Departmental underspends will be transferred to earmarked reserves to meet the future cost of change in line with the existing policy or for other specific purposes which have already been approved (e.g. health funding, Workstyles etc.). No separate approvals for other types of carry forwards are therefore required as part of this report.
- 2.3. Detailed explanations of the reasons for the underspends in Departmental budgets is provided in Appendix 1.

Schools Budget

- 2.4. The Schools Budget is fully funded by Dedicated Schools Grant (DSG) and other ring-fenced grants, which have to be carried forward for school purposes. Unless an overspending arises, spending is therefore automatically in line with the cash-limit, as the cash-limit is adjusted for the carry forward of grants. In total for 2011/12 there was an underspend of £4.2M against the schools budget and this will be carried forward to 2012/13 as part of an overall total of DSG of £20.9M. The final allocation of how this money will be used has already been or will be agreed by the Schools Forum later in the year.

Other Budgets

- 2.5. The outturn for other items contained within in the budget is shown in the following table:-

	(Under) / Over Spend £M
Capital Asset and Financing Costs	(3.8)
Contingencies	(7.1)
Pension and IAS 19 Costs	(0.2)
Winter Maintenance	0.4
Other Central Spending	2.0
	<u>(8.7)</u>

- 2.6. It is recommended that after maintaining General Balances at 2.5% of the Budget Requirement in line with current policy, that the balance of the underspend is transferred to the Capital Payments Reserve to provide for potential future strategic land purchases. The main reasons for the variances in these other budgets is detailed in the paragraphs below.

Capital financing charges and interest on balances (£3.8m underspend)

- 2.7. Capital financing charges were slightly lower than estimated with the average rate of interest for the year being marginally lower than forecast. Higher interest on balances resulted both from slightly higher interest rate returns than assumed and additional balances arising from underspendings in revenue and capital expenditure and other favourable cash flow movements.

Waste Management Contingency (£2.238m underspend)

- 2.8. Provision is made each year for inflationary and volume increases associated with the waste management contract. Due to the impact of the recession, the increase in waste levels has been suppressed for the last few years and this trend continued in 2011/12. Furthermore, additional income was received in the last quarter of the year which meant that no draw was required from contingencies during that period. These items have contributed to the underspend of £2.2m for the year.
- 2.9. The cost of the waste contract is heavily influenced by economic factors affecting the volume of household waste being generated and at some point there is likely to be a reversal of the current trend and therefore inflationary and volume increases could be much higher in future years.

Concessionary Fares (£1.514m underspend)

- 2.10. It is difficult to predict with any certainty the impact of passenger journeys, operator price increases and the potential for challenge on the operator reimbursement rate.

- 2.11. Central provision was therefore made in contingencies for concessionary fares costs in the year, and this variance represents an underspend against this budget.

Other Contingencies (£2.867m underspend)

- 2.12. Other unused Contingencies in respect of interest rate risks, unallocated provisions for adult social care complexity and demography pressures and payments for carbon allowances contributed nearly £3m to the overall saving within contingencies.

Pensions and IAS 19 Costs (£200,000 underspend)

- 2.13. As part of setting the budget for 2011/12 the accounting arrangements for pension contributions was changed so that the past pension contributions were met centrally rather than from individual service budgets.
- 2.14. Budgets were therefore stripped out of service budgets for this item and payments have been made directly to the pension fund from this budget. The amount that was transferred was slightly higher than the actual payments required to be made to the pension fund leading to a small underspend.

Highways Winter Maintenance Costs – (£398,000 overspend)

- 2.15. Due to the unpredictability of winter maintenance costs the budget within Environment and Transport is fixed each year and any variation against this amount arising from extreme weather conditions is funded corporately. During 2011/12 additional costs of £398,000 were incurred in respect of this item and will therefore be met from corporate resources in line with the existing policy.

Doubtful debt provision (£2m overspend)

- 2.16. The County Council's policy is to make a provision against a proportion of debts proving to be irrecoverable. The provision is assessed on the basis of the age profile of outstanding debts and partly on the probability of specific debts being irrecoverable. There is no budgeted amount because the provision varies significantly from year to year, but for 2011/12 a detailed review of outstanding debts, particularly in adult social care services has indicated that it would be prudent to make an additional provision of £2m for the year.

Revenue contributions to capital

- 2.17. The County Council provides for revenue contributions to support the capital programme, these are usually drawn down in line with the requirement to finance capital expenditure but have no impact on the bottom line of the revenue budget.
- 2.18. For 2011/12 due to underspends in capital payments during the year, over £6.2m of RCCO is not required, and instead will be transferred to the capital payments reserve along with other planned one off contributions agreed as part of the revised budget for 2011/12.

General Balances

- 2.19. General Balances at 31 March 2012 are £17.9m as set out in the February 2012 budget after allowing for the budgeted 2011/12 contribution from balances of £3.1m. This represents 2.5% of the County Council's Budget Requirement in line with the current policy.

3. Earmarked Reserves

- 3.1. The County Council has been praised in the past in connection with its prudent financial management and use of earmarked reserves as part of medium to long term financial planning. Although the County Council has responded well to the financial challenges in 2011/12 and 2012/13, there is still uncertainty in respect of the last two years of the current CSR and all the indications are that at least the first two years of the next CSR period will be equally challenging.
- 3.2. Therefore as part of the year-end accounts closure process and the forward planning for the MTFs which will be developed to coincide with the release of grant figures in December of this year, it is recommended that the Director of Corporate Resources undertake a review of earmarked balances in order to assess their levels against the purposes for which they were originally created. This may require some consolidation, rationalisation or transfer for other purposes, in particular it is felt prudent at this stage to consider changes to reserves to
 - Top up the Grant Equalisation Reserve to provide a buffer against anticipated grant cuts in 2015/16 and 2016/17
 - Provide for losses on rating valuation appeals once the new system of business rates retention is introduced in April 2013 and
 - To smooth potential volatility in precept income, the arrangements for which will change as part of the Localisation of Council Tax Benefit

4. Treasury management, and prudential indicators

- 4.1. The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function, details of which are set out in Appendix 2. Under the current Treasury Management

Code of Practice introduced in 2009/10, the end of year report has to be submitted to the County Council.

- 4.2. The prudential code for capital finance in local authorities includes a number of prudential indicators for which actual indicators for the year as well as budgeted indicators require approval. Appendix 2 summarises the relevant indicators for the 2011/12 outturn which are in accordance with the policies approved by the Cabinet.

5. **Capital spending and financing 2010/11**

- 5.1. £107.6m of capital schemes were committed during the year, leaving £60.0m to be carried forward to 2012/13, subject to Cabinet's approval.
- 5.2. Capital expenditure of £161.7m was incurred, which can all be financed within available resources, this includes £15.1m of spending on the street lighting PFI scheme which will be funded by means of a finance lease funded by Government.
- 5.3. Prudential borrowing of £15.6m will be taken out to support the programme, although there will also be a further repayment of prudential borrowing from capital receipts and other funding sources of £9.9m. Further details of the outturn position for capital are provided in Appendix 3.

6. **Assurance statement**

- 6.1. The code of Practice on Local Authority Accounting in the UK requires the County Council within its Statement of Accounts to publish an annual governance statement signed by the Leader and Chief Executive. As part of this process, the Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control operating in each department and in the County Council as a whole. These opinions are reviewed by the Audit Committee.

- 6.2. The Chief Internal Auditor has concluded that:

"In my opinion, Hampshire County Council's framework of governance, risk management and management control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

7. **Pension Fund**

- 7.1. The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council's Statement of Accounts. The accounts for 2011/12 record that the value of the fund's assets has increased slightly to

£3.7bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund and has concluded that :

“In my opinion, based on internal audit work completed ‘Substantial Assurance’ can be placed on Hampshire County Council (Pension Services) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.”

8. **Final Accounts**

- 8.1. The final accounts must be submitted for audit by 30 June each year. The purpose of this report is to outline the key issues arising from the outturn position for 2011/12, although given the much earlier report publication times for this Cabinet meeting, it is possible that there will be minor changes within the accounts that will have to be reflected in the version that is submitted for audit.
- 8.2. Delegated Authority has therefore been requested for the Director of Corporate Resources to make any necessary amendments to the figures presented in this report for final publication in the annual accounts to be submitted for audit. Any major changes or issues will be reported back to Cabinet either verbally, at the meeting or in due course.

9. **Recommendations**

- 9.1. That the outturn position set out in Section 2 be approved and that the actual overall underspend (anticipated to be in the region of £8.7m after allowing for other adjustments to reserves) be transferred to the Capital Payments Reserve.
- 9.2. That delegated authority be given to the Director of Corporate Resources to make any final changes to the outturn position presented in this report prior to the accounts being submitted for audit by 30th June.
- 9.3. That delegated authority be given to the Director of Corporate Resources in consultation with the Leader of the Council to undertake a review of earmarked balances in line with the strategy outlined in section 3 and the MTFS update report elsewhere on the agenda as part of the year end closure of accounts.
- 9.4. That the report on the County Council’s treasury management activities and prudential indicators as set out in Appendix 2 be approved for submission to the County Council.
- 9.5. That service capital programme cash limits for 2012/13 be increased to reflect the carry forward of capital programme schemes and shares of capital receipts, as set out in Appendix 3.

Adult Services

Revenue Expenditure 2011/12

Major variations in cash limited expenditure – Net under spending of £2.137m against the adjusted cash limit.

Main variations

Service Area		(Under) / Over spend £000	Adjusted Cash Limit £000	Reason for Variation
Commissioning and Partnerships		(215)	39,296	Planned underspend (to be carried forward) of the Corporate Extra Care project budget (£147,000) as well as underspends against the Community Safety Funding for Domestic Violence (£202,000) which will be made available in 2012/13.
Older People (OP) and Physical Disabilities (PD)	OP	(1,859)	102,515	Net underspend mainly reflects the impact of a shift in the type of care being provided to Older People. In particular this includes lower than budgeted numbers of service users receiving higher cost long-term residential care placements than originally anticipated, with more service users successfully receiving short-term re-ablement packages, domiciliary care packages and use of direct payments (£1,216,000 net underspend). Additional funding received from Health in March (£200,000) for a Joint Hospital Admission Prevention scheme further contributed toward the final underspend, as well as planned vacancy management / management & support savings (£172,000 net).
	PD	1,589	24,976	Final position mainly reflects pressures on direct payments budgets of around £1m due to higher than budgeted average numbers of packages provided, and pressures on staffing budgets

Service Area		(Under) / Over spend £000	Adjusted Cash Limit £000	Reason for Variation
				(£348,000).
Learning Disabilities (LD), Mental Health (MH), In-House (IH) provider services and other non-operational support services	LD	594	89,114	Mainly reflects pressures on purchased residential care budgets (£275,000) as well as domiciliary care budgets due to higher numbers of packages than planned and slippage in savings targets. Pressures on staffing budgets (£245,000) account for the majority of the remaining net overspend.
	MH	(398)	10,862	Lower than budgeted average weekly costs on purchased residential packages (£439,000).
	IH	(2,595)	37,009	Underspend is mainly due to additional income received from Health during the later part of the year in respect of the Hampshire Integrated Community Equipment Store (£1.947m).
	Non-operational /other	1,041	11,148	A planned overspend in relation to one-off transformation costs to support delivery of the departments longer-term efficiency programme including the implementation of the Electronic Domiciliary Care Monitoring system and the contributions policy, in-house transformation project costs, as well as additional one-off support for hants direct, the implementation of Hantsfile, other efficiency savings reviews (Telecare & Transport) and other necessary IT development.
Various other		(294)	8,471	
Total		(2,137)	323,391	

Children's Services

Revenue Expenditure 2011/12

Major variations in cash limited expenditure – Net under spending of £4.904m against the adjusted cash limit.

Service Activity	(Under) / Over Spend £'000	Adjusted Cash Limit £'000	Reason for Variation
Schools budget			
Central Provisions	(2,307)	21,369	Temporary classrooms, rates (Rebates due to academy conversion, Trust status etc), Additional DSG not allocated in year
Premature Retirement	576	400	This reflects the increased number of school re-organisations and includes a reduction in Parent Support Advisers, Sports and Extended School Co-ordinator roles.
Information Technology	(615)	2,960	HPSN2 implementation costs lower than planned
Education Inclusion Service	(438)	8,666	Savings achieved at Education Centres arising from staff vacancies and additional income.
Services for Young Children – payments for 3&4 year olds	361	40,694	Spring and autumn term payments being higher than projections.

Service Activity	(Under) / Over Spend £'000	Adjusted Cash Limit £'000	Reason for Variation
Statemented pupils	(1,546)	10,124	Reduced low incidence statements, prudential borrowing not required
Inter authority recoupment	1,087	630	Increased number of children receiving SEN support placed in Other Local Authority (OLA) special schools and fewer young people placed in Hampshire schools.
Independent and Non-maintained Special Schools	(425)	9,449	Placement numbers lower than planned.
Various other (net)	(890)	653,822	
Carry Forward of Dedicated Schools Grant (DSG)	4,197	(4,197)	<p>Department for Education (DfE) require that DSG funds be applied in the year in which they are used. This sum is part of the total DSG to be carried forward of £20.885m. The other major components of the carry forward consist of:</p> <ul style="list-style-type: none"> • £9.694m of planned carry-forward from previous years as agreed with Schools Forum • £5.752m of capital expenditure from revenue which had not been spent by 31 March 2011 • £1.242m of unallocated DSG <p>Schools Forum will review proposals for use of any unplanned carry-forward.</p>
Sub-total Schools' Budget	0	743,917	

Service Activity	(Under) / Over Spend £'000	Adjusted Cash Limit £'000	Reason for Variation
Non Schools Budget			
Home to School Transport	(1,094)	27,486	Contract savings (prices held and more effective use) and escorts savings
Management & Support A,P&R	(721)	4,386	Vacancy management, additional income generated by the Health and Safety team, a reduction in premises costs and a drop in demand for CRB checks for social care staff.
Services for Young Children	(2,305)	25,009	Early implementation of planned savings. Costs of change deferred to 2012/13. (New children's centres contract start date 23 April 2012)
Youth Support Services	(1,278)	8,886	Early implementation of planned savings from restructure. Some costs of change in 2012/13
Commissioning and Social Work	348	17,237	Use of agency staffing to meet recruitment and retention challenges and additional staff costs incurred by the Customer Reception Team to meet workload demands.
Children Looked After	2,154	36,957	Increased numbers of CLA, particularly later in the year. More children in more expensive placements, particularly external purchased care (non county placements)

Service Activity	(Under) / Over Spend £'000	Adjusted Cash Limit £'000	Reason for Variation
Family Support Services	540	10,441	The main areas of pressure are services for children with disabilities, including home care, where the number of children receiving these services is higher than at the same time last year. In addition there is a pressure on direct payments and other family support, largely relating to rising activity on special guardianship orders.
'Unallocated' (Contingency)	(1,539)	1,073	Contingency held centrally to offset other pressures. Some costs of change carried forward to 2012/13 due to timing of final negotiations (community education)
Various other (net)	(1,009)	42,419	
Sub-total Non Schools Budget	(4,904)	173,894	
Total Children's Services Department	(4,904)	917,811	

Economy, Transport & Environment

Revenue Expenditure 2011/12

Major variations in cash limited expenditure – Net under spending of £1.299m against the adjusted cash limit.

Main variations

Service Area	(Under) / Over spend £000	Adjusted Cash Limit £000	Reason for Variation
Highways, Traffic and Transport	(497)	64,095	Return of Safer Roads Partnership balances, vacancy management and early achievement of staffing savings plus minor savings in operational budgets such as traffic surveys.
Waste, Planning and Environment	(305)	39,730	Vacancy management and early achievement of staffing savings
Economic Development	(497)	1,309	Savings against a range of staffing and non-pay costs in anticipation of lower external funding levels and restructuring of the service in 2012/13.
Total	(1,299)	105,134	

Policy and Resources

Revenue Expenditure 2011/12

Major variations in cash limited expenditure – Net under spending of £5.423m against the adjusted cash limit.

Service Activity	(Under) / Over Spend £'000	Adjusted Cash Limit £'000	Reason for Variation
Chief Executive's (including HR)	(2,101)	16,926	Staff savings throughout the department as a result of planned staff reductions and vacancy management, additional income generated in the year from Legal Services and Emergency Planning and reduced spending on recruitment advertising as a result of the on going recruitment moratorium.
Treasurer's	(625)	11,191	Savings on staff and associated costs, plus additional income earmarked to contribute to anticipated termination costs from CSR.
Culture, Communities and Business Services	(1,624)	65,477	The planned early achievement of 2012/13 savings in Trading Standards, planned underspend in Business Support to be carried forward for future workstyle costs, Registration Service achieved higher than projected income and control of costs throughout the department.
Other budgets	(1,073)	6,590	Combination of savings across an number of budgets, the most significant coming in Member's Support costs on special responsibility allowances, IT, travel and refreshments, grants to voluntary organisations and Members' devolved budgets not fully taken up and a reduction in the external audit fee.
Total	(5,423)	100,184	

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	No
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	no
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	no
Corporate Improvement plan link number (if appropriate):	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

3.1. How does what is being proposed impact on our carbon footprint / energy consumption?

No specific proposals.

3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts

No specific proposals affecting adaptation to climate change.