

**HAMPSHIRE COUNTY COUNCIL
Decision Report**

Decision Maker:	Cabinet
Date:	4 July 2011
Title:	2010/11 – end of year financial report
Reference:	3016
Report From:	County Treasurer

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1. Executive Summary

- 1.1. This report provides a summary of the 2010/11 final accounts .The draft statement of accounts will be submitted for audit on the 30 June 2011 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 £9.8m (0.6%) lower than budgeted against an overall budget of over £1.5bn, reflecting the strategy adopted across those services not adversely affected by the mid year grant reductions, of seeking to reduce spending in 2010/11 in preparation for major grant reductions from 2011/12 and to finance the costs of restructuring in 2011/12 and 2012/13. The position for each of the services is summarized in the table below:

Table 1 : 2010/11 Outturn variation for services

	Variation against cash limit £000	Variation against cash limit %
Adult Services		
Additional health funding	-3,163	
Supporting People	-3,283	
Other savings	-316	-2.2
Children’s Services	-	-
Environment	-225	-0.2
Policy and Resources		
Central support services	-2,180	
Other services	-658	-2.4
	-9,825	-0.6

- 1.3. Children's Services cash limit was reduced by 2.9% as a result of the mid year grant reductions and allowing for other budget pressures were required to identify savings of around £8m in 2010/11. The Cabinet agreed to provide corporate support in 2010/11 provided the savings programme was fully implemented by 31 March 2011. The final accounts allow for corporate support of £3.8m, very close to the £3.7m allowed for in the revised budget.
- 1.4. Adult Services benefitted from additional partnership funding of £3.2m from the NHS, for which agreement on its use was only reached with the primary care trust just prior to the end of the year. A decision was also taken with partners to carry forward Supporting People grant of £3.3m in order to smooth the profile of future spending reductions.
- 1.5. Policy and Resources also achieved significant planned savings in advance of 2011/12 to support the costs of restructuring associated with 2011/12 and 2012/13 budget reductions of 8%, but also in anticipation of further changes arising from the Corporate Services Review.
- 1.6. Service underspendings have been transferred to earmarked reserves for use by the respective service to meet restructuring costs associated with the change agenda, in accordance with the revised financial management policy. Savings on non-cash limited budgets, after allowing for proposed reserve transfers total £1.1m. A report has been commissioned on the potential level of liabilities, arising not only from current insurance claims but future claims relating to past events, which recommends a higher level of insurance reserve than currently maintained and it is proposed that the underspending of £1.1m be transferred to the insurance reserve.
- 1.7. 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 2010/11

2. **2010/11 Final accounts**

Service cash limits

- 2.1. Spending within service budgets was £9.8m (0.6%) below the revised estimate, reflecting the strategy agreed in Autumn 2010 of seeking to achieve savings in advance of 2011/12 to assist in financing the costs of change that will be incurred in achieving the significant budget savings required in 2011/12 and 2012/13.
- 2.2. A brief summary of the position on each service is set out below. Appendix 1 contains an analysis of the main variations between actual spending and the cash-limit for each service and summarises the end of year position on demand led and employee budgets.

Adult Services (-£6,762,000)

- 2.3. The Adult Services revised budget identified forecast net spending pressures of £2.2m, which the department expected to be able to contain and generate an underspending through a number of strategic actions. Additional income from Health announced by the Government in December 2010, of which the County Council's share was £3.2m, was received and was intended to support a range of social care services that also benefit Health. Final agreement regarding the use of this funding was reached with NHS Hampshire in March 2011.
- 2.4. The final outturn (an underspending of £6.8m) incorporates the outcome of these strategic actions, including a planned underspend of £3.3m on the Supporting People programme. It also reflects the department's achievement in containing forecast demographic pressures during the year, with average actual client care package numbers being below budgeted activity numbers apart from for the Learning Disabilities client group, as well as the effects of increased complexity, apparent from an increase in the average unit cost of care packages.
- 2.5. The early achievement of a number of 2011/12 savings targets by the department, as well as the additional health income received late in the financial year, have resulted in an underspending being achieved in 2010/11. This underspend will be carried forward in full to support the cost of change associated with implementing the 2011/12 and 2012/13 budget strategy, including the anticipated cost of further redundancies, the 'smoothed' approach to reducing Supporting People programmes of care over the next three years, following reductions in grant, and expenditure to support reablement.

Children's Services (nil variation after corporate support of £3.8m)

- 2.6. The revised budget for Children's Services (excluding schools) was set at £3.7m above the cash-limit. This forecast incorporated the impact of non-schools in year grant cuts of £6m, as well as the estimated cost of the compulsory element of the redundancy costs relating to Stage 1 of the department's restructure (£3.7m), which the Cabinet agreed to underwrite.
- 2.7. The final outturn position includes the actual cost of redundancy payments incurred in 2010/11 and the estimated cost of planned future redundancies (the latter not reflected in the revised budget), associated with implementing the department's budget strategy. These costs total £6.5m excluding costs charged to business units and partnerships.
- 2.8. In addition, the budget for Children Looked After has continued to present a significant pressure during the year, with actual spending £2.6m or 6.8% above the cash limit. Management action taken has enabled the department to address the wider in-year grant cuts as well as these significant budget pressures, resulting in the service achieving a balanced budget in accordance with the strategy agreed by the Cabinet.
- 2.9. 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 DSG of £22.0m will be carried forward to 2011/12, including £4.9m in respect of school capital repairs and the cost of installing smart meters, £9.1m from underspendings in 2010/11 and £7.9m carried forward from previous years already agreed by the Schools Forum. Schools Forum has agreed the use of the majority of the carried forward DSG, including setting aside funding for the settlement of potential equal pay claims.

- 2.10. Schools have collectively spent £2.6m (0.3%) less than their delegated budgets in 2010/11, increasing the underlying level of school reserves to £39.6m at 31 March 2011.

Environment (-£225,000)

- 2.11. Savings achieved mainly on operational and support services budgets have enabled restructuring costs of £2.1m to be accommodated within the cash limit, together with a small underspending of £225,000

Policy and Resources (-£2,838,000)

- 2.12. Each of the Policy and Resources services has been managing its budget during 2010/11 with a view to achieving a significant underspend, both to facilitate the achievement of the savings target in 2011/12 and to provide funding for non-recurring restructuring costs. The underspending will be carried forward to 2011/12 primarily in support of the costs associated with the Corporate Services Review.

Carry forward of over and underspendings

- 2.13. The County Council's financial management policy was amended by the Cabinet in October 2010, to allow in respect of 2010/11 and 2011/12 all underspendings against cash limited budgets to be carried forward to be used for and contribute to the change agenda and the Council's Efficiencies and Expenditure Reduction Programme, in consultation with the County Treasurer. Service cash limits will be adjusted to reflect actual costs incurred on approved programmes during the relevant financial year.

Other budgets

- 2.14. The overall underspending on other budgets is £1.1m, of which the most significant variations are summarised in this section of the report.

Waste Management Contingency (-£1,925,000)

- 2.15. A contingency of £0.8m had been included in the 2010/11 budget to cover potential waste management contract increases arising from inflation, increased volumes and higher landfill tax. Waste volumes fell by 0.2% compared with 2009/10, whereas the contingency had been based on growth of 1.2%. As a result, actual costs were £1.1m lower than budgeted, generating a saving of £1.9m against the budget.

- 2.16. The cost of the Waste contract is heavily influenced by economic factors affecting the volume of household waste being generated. Waste volumes have fallen for three consecutive years, but at some point there is likely to be a reversal of this trend and it is proposed to transfer the underspending to a new waste contract reserve to smooth the impact of future changes in waste volumes.

Corporate funding of voluntary redundancies (£3,143,000 offset by an equivalent transfer from the organisational change reserve)

- 2.17. An Organisational Change reserve was established during the year to support the introduction of an enhanced voluntary redundancy scheme for reviews undertaken as part of the Efficiencies and Expenditure Reduction Programme. £10m was transferred to the reserve in 2010/11 from the Corporate Policy and Invest to Save reserves. Expenditure incurred in 2010/11 amounted to £6.5m, £3.1m higher than assumed in the revised budget . The assumption made in the revised budget was based on an assessment of redundancies expected to take place prior to 31 March 2011, but the accounting treatment also requires the inclusion of costs of redundancies already agreed or for which plans are in place at 31 March 2011 and consequently costs which it was assumed would be incurred in 2011/12 have been provided for in 2010/11's accounts. Corporate funding of £6.5m was therefore required in 2010/11 , but the funding requirement in 2011/12 will be correspondingly lower.

Capital financing charges and interest on balances (-£1,797,000)

- 2.18. Capital financing charges were slightly higher than estimated with the average rate of interest for the year being marginally higher 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.

Insurance (-£2,580,000 offset by a contribution of £2,580,000 to the Insurance Reserve)

- 2.19. The contribution to or from the insurance provision is based on the value of claims paid in the year and the change in the assessed value of outstanding liabilities. An increase in the assessed value of public liability claims requires an increase of £1.6m in the provision in respect of public and employer liabilities. However this increase is more than offset by a significant saving of £4.2m as a result of another favourable year in respect of fire reinstatement costs incurred and in the level of damage incurred from new incidents during the year, generating an overall saving of £2.6m.
- 2.20. The approach to the County Council's self insurance arrangements is to be reviewed, which has been based primarily on a 'pay as you go' approach. This minimises short term costs but carries a degree of risk which is dependant upon the overall strength of the County Council's financial position, including the ability to reallocate capital programme resources to deal with exceptional unexpected losses. In the current financial position, the County Council is no

longer as well placed to be able to mitigate those risks. The policy is also inconsistent with the requirement for the County Council to retain responsibility for liabilities relating to past events in respects of schools becoming academies, irrespective of when the claim arises.

- 2.21. As an initial step, an assessment has been commissioned of the level of insurance reserve required to recognize future as well as current liabilities in respect of past events . The report recommends an increased level of reserve, and it is proposed to earmark the 2010/11 insurance saving to the insurance reserve and to recommend that the overall saving of £1.1m on non cash-limited budgets also be earmarked for this purpose, increasing the insurance reserve to £16.7m at 31 March 2011.

Highways winter maintenance (-£,161,000)

- 2.22. The highways winter maintenance budget is set on the basis of a four year average of actual expenditure adjusted for inflation, with any over or underspending taken to balances. Following the severe weather prior to Christmas, a contingency provision of £2.2m was included in the revised budget to cover potentially higher spending in 2010/11. The final position was £161,000 lower than had been forecast.

Doubtful debt provision (£746,000)

- 2.23. 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. The provision varies from year to year . An increase in the provision of £746,000 is required this year.

Business rates (-£256,000)

- 2.24. Savings on business rates on non-school budgets of £256,000 have been achieved in 2010/11. Funding for the team in Property Services who deal with business rate appeals is provided from the Invest to Save and modernisation reserve and it is proposed that the saving be transferred to the reserve.

Revenue contributions to capital

- 2.25. As explained in Appendix 4, capital expenditure of £196.3m required funding in 2010/11. This is £1.5m lower than estimated.
- 2.26. Adjusted for transfers between capital and revenue that have been agreed during the year and excluding revenue contributions towards school capital repairs funded by Dedicated Schools grant, revenue contributions available to finance capital expenditure in 2010/11 amount to £17.6m.
- 2.27. The Government has yet to confirm whether any capitalisation directions will be made available to enable equal pay claim costs to be capitalised in 2011/12. Whilst there is an equal pay reserve, it is still unclear whether it will be sufficient, particularly considering recent judgements in other cases which are detrimental to our position. It is proposed as a contingency measure that the planned revenue contribution to capital of £17.6m is instead transferred to the

general capital reserve and that the matching capital spending is financed by unsupported borrowing, should this be necessary. This has the same effect as obtaining a capitalisation direction for £17.6m.. Should a capitalisation direction not be required or if a satisfactory direction is received, then the additional borrowing can be repaid by applying the capital reserve for capital financing purposes in 2011/12, so that the longer term funding position is unaffected.

Summary – other budgets

2.28. The variations on other budgets can be summarised as follows:

Table 3: Summary of variations on other budgets

	£'000
Waste management contract contingency	-1,925
Transfer to Waste contract reserve	1,925
Corporate funding of voluntary redundancies	3,143
Transfer from Organisational change reserve	-3,143
Capital financing costs and interest on balances	-1,797
Winter maintenance	-161
Insurance provision	-2,580
Transfer to insurance reserve	2,580
Provision for doubtful debts	746
Business rates	-256
Transfer to Invest to Save Reserve	256
Revenue contributions to capital	-17,643
Contribution to general capital reserve	17,643
Other variations	67
Net saving on other budgets	-1,145
Proposed transfer to insurance reserve	1,145
Net variation in balances	-

- 2.29. Balances at 31 March 2011 are £21.0m as set out in the February 2011 budget, reducing to the target level of £18m at 31 March 2012, after allowing for the budgeted 2011/12 contribution from balances of £3.0m.

Earmarked Reserves

- 2.30. Earmarked reserves are £214.3m at 31 March 2011, an increase of £47.9m since 31 March 2010. This is mainly the result of:
- service underspendings carried forward to 2011/12 to meet restructuring and other costs associated with the cost of change (£9.8m), offset by the use of 2009/10 underspendings in 2010/11 - £5.1m
 - the proposed additional contribution to the capital reserve – £17.6m
 - the PFI grant transferred to reserve as a result of the mismatch between the profile of government grant receipts and contract payments - £5.8m
 - the increase in school balances -£2.6m
 - the recommended transfer to the insurance reserve - £4.1m
 - the transfer approved by the Cabinet of the contingency in the 2010/11 budget for free personal home care into the equal pay reserve - £4.5m
 - the achievement of corporate efficiency savings in advance of 2011/12, transferred to the corporate efficiency reserve in 2010/11 - £10.3m
- 2.31. Details of the movements in reserves during 2010/11 and of the protocol for each of the main classes of reserve are set out in Appendix 2.

3. Treasury management, and prudential indicators

- 3.1. 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 3. 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.
- 3.2. 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 3 summarises the relevant indicators for the 2010/11 outturn which are in accordance with the policies approved by the Cabinet.

4. Capital spending and financing 2010/11

- 4.1. £162.3m of capital schemes were committed leaving £50.3m to be carried forward to 2011/12.

- 4.2. Capital expenditure of £196.3m was incurred, £1.5m less than estimated which can all be financed within available resources, including the proposed use of prudential borrowing £17.6m in place of revenue contributions to capital. This includes capital investment of £14.7m in street lighting column replacement financed via the PFI contract. Further detail is included in Appendix 4.

5. **Assurance statement**

- 5.1. 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.

- 5.2. The Chief Internal Auditor has concluded that:

‘In my opinion, Hampshire County Council’s framework of governance, risk management and management control is basically sound 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.’

6. **Pension Fund**

- 6.1. The separate accounts for the Hampshire Pension Fund will also be incorporated in the County Council’s Statement of Accounts. The accounts for 2010/11 record that the value of the fund’s assets has increased from £3.2bn to £3.6bn during the year. The Chief Internal Auditor has provided a separate assurance opinion for the Pension Fund in the same terms as set out in paragraph 5.2 above.

7. **Recommendations**

- 7.1 That the outturn position be approved and that the overall underspend of £1.1m be transferred to the insurance reserve
- 7.2 That the movements in reserves and the protocol on earmarked reserves as set out in Appendix 2 be approved..
- 7.3 That the report on the County Council’s treasury management activities and prudential indicators as set out in Appendix 3 be approved for submission to the County Council.
- 7.4 That service capital programme cash limits for 2011/12 be increased to reflect the carry forward of capital programme schemes and shares of capital receipts, as set out in Appendix 4.

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

Hampshire safer and more secure for all:	yes
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	yes
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	yes
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.)

Document

Location

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.