



SCRUTINY COMMISSION – 30 NOVEMBER 2016

REVIEW OF EARMARKED FUNDS AND BALANCES

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. To report the findings of a detailed review of revenue earmarked funds and balances.

Policy Framework and Previous Decisions

2. The earmarked funds strategy was approved by the County Council at its budget meeting on 17 February 2016 as part of the Medium Term Financial Strategy (MTFS). The earmarked funds are reviewed three times during the financial year.

Background

3. The review covered all revenue earmarked funds and balances, excluding schools earmarked balances. The main elements were to:
 - a) review if earmarked funds were required and the appropriate level;
 - b) review the spending and contribution profiles for the main earmarked funds over the next four years;
 - c) review the appropriate level of the General County Fund;
 - d) reallocate balances as required.

Earmarked Funds

4. Earmarked funds are held in accordance with the County Council's Earmarked Funds Policy that is approved annually by the County Council as part of the MTFS – copy attached as Appendix A.
5. The level of earmarked funds excluding schools and partnerships was £75.4m as at 31 March 2016, see Appendix B for details. The opening balances have been reviewed and updated as part of the review of earmarked funds. These amendments are shown as transfers in Appendix B. The amendments are:

- A transfer from the Economic Development-Leics Local Enterprise Fund earmarked fund to the Economic Development – General earmarked fund (£0.8m); see paragraph 35.
 - A transfer from the Environmental/Energy Efficiency fund to the Capital Financing fund (£0.2m); included in the capital programme.
 - Transfers of elements of earmarked funds for Community Grants which are no longer required for their original purposes to the Transformation Fund (£0.1m).
6. Following the review of earmarked funds, the updated list of earmarked funds and forecast of balances for the next four years are detailed in Appendix C.
7. The following paragraphs consider each earmarked fund in detail and show a projection of the balances at 31st March 2017.

Renewals of Equipment and Vehicles (£4.2m)

8. Departments hold earmarked funds to provide funds for the future replacement of equipment and vehicles.
9. The earmarked funds are;
- Children and Family Services (£1.6m). This earmarked fund is held to respond to the need to develop, improve and where necessary replace departmental management information systems such as Capita One and Frameworki.
 - Adults and Communities (£0.7m). This provides funding for the future replacement of equipment, vehicles and departmental IT systems.
 - Environment and Transport (£0.5m). This fund is used to supplement other resources used for the replacement of vehicles and equipment, both those used for Highway Maintenance activity and also those used within the Passenger Fleet team for School and Social Care Transport.
 - Corporate Resources (£1.4m). Funding set aside for the County Council's ICT infrastructure and to save for future planned upgrades

Trading Accounts (£0.8m)

10. Surpluses from the Industrial Properties trading account are transferred to an earmarked fund to provide funds for future capital investment, large maintenance items and to smooth volatility in revenue performance.

Insurance (£19.3m)

11. Earmarked funds of £11.5m are held to meet the estimated cost of the insurance policy excesses that the Council is liable for. This is for historic incidents that have

not yet been reported to the Council and an amount to allow excesses of large property claims to be met. This enables the Council to meet excesses regardless of the timing of claims, which can be erratic. The levels are assessed periodically through an Actuarial Review. Excesses include:

- Property damage (including fire) £500,000
 - Public / Employers' liability £250,000
 - Professional indemnity £25,000
 - Fidelity guarantee £100,000
 - Money – completely self-insured
12. Schools schemes and risk management (£0.4m). The County Council arranges contents insurance for schools with an excess of £50,000. To protect schools from large losses the County Council retains a proportion of the saved premiums to pay claims that are above the level of excess that a school would normally expect (£200) up to the insured level (£50,000). A balance is built up in low claim years to allow the cost of high claim years to be met. Similarly a claims contingency is held for the Human Resources advisory scheme, operated by the County Council, for schools, in case of employment disputes resulting in a tribunal. The fund is also used to fund risk management initiatives to try and reduce claims in future years.
 13. The uninsured loss fund of £7.4m is required mainly to meet potential liabilities arising from Municipal Mutual Insurance Ltd (MMI) that is subject to a run-off of claims following liquidation in 1992. The fund also covers the period before the Council purchased insurance cover and the period (1993-97) that the Council was insured with Independent Insurance, who have entered provisional liquidation.
 14. The MMI run-off is regulated by a scheme of arrangement (the scheme) entered into by the creditors of MMI. The scheme provides for a clawback against the creditors in the event that the assets of MMI at the time of liquidation prove insufficient to meet its liabilities. MMI's accounts continue to show a worsening position due to the estimated costs of future mesothelioma and abuse claims, calculated by MMI's actuaries. As a result the County Council was requested by the scheme administrator to pay a levy payment of £1.6m in early 2016. The position of MMI and other failed insurers is kept under review.

Committed Balances (£0.3m)

15. Two earmarked funds are used as a mechanism to carry forward resources where expenditure has been committed to projects but the expenditure has not been incurred in that financial year. The two earmarked funds are the Central Maintenance Fund (CMF), £0.1m and the earmarked fund for community grants, £0.2m.

Children and Family Services

16. Supporting Leicestershire Families (£1.7m). This earmarked fund is used to fund the Supporting Leicestershire's Families service which is providing early help and intervention services for vulnerable families across Leicestershire.

17. Children and Family Services Developments (£2.3m). This general earmarked fund provides funding for a number of projects within the department such as improving management information, information access and retention and responding to changing requirements as a result of OfSTED and legislation.
18. Youth Offending Service (£0.3m). This earmarked fund is used to fund the Youth Offending Service.
19. Special Educational Needs Disability (SEND) (£0.4m). Local authorities have received grant for the implementation of a national redesign of services for children with special educational needs and disabilities. Changes in national expectations and recruitment difficulties have resulted in some elements of implementation being re profiled.
20. School Based Planning (£0.7m). Funding set aside to fund the development of a school place planning strategy to support significantly increased capital funding in 2016-19.

Adults and Communities

21. Adults and Communities Developments (£3.0m). This earmarked fund is held to fund a number of investments in maintaining social care service levels and assisting the department in achieving its transformation.
22. Museums and Arts (£0.0m). This earmarked fund represented the income received from the sale of artefacts. The fund is being used to maintain the quality of existing collections and is expected to be fully utilised in 2016/17.
23. Adults and Communities Extra Care (£0.6m). This earmarked fund was created from elements of the New Homes Bonus grant that were ring fenced by the Cabinet for Extra Care schemes. There is a scheme currently in development in Charnwood (£0.3m).

Public Health

24. Public Health (£1.6m). The NHS grant for Public Health was above the level of historic expenditure, recognising the historic underfunding in Leicestershire. This will be used for preventative and other Public Health beneficial activities.

Environment and Transport

25. Commuted sums (£2.0m). This is used to cover future revenue costs arising from developer schemes, where the specifications are over and above standard developments (e.g. block paving, bollards or trees adjacent to the highway). These liabilities can arise many years after the funding is received and therefore the balance on this earmarked fund has built up over time. The intention is to utilise the resources over the next few years (£0.4m per year) to help mitigate against the impact of the overall reductions in resources available for highways maintenance,

although it is likely that additional amounts (on average £0.2m to £0.3m per year although it does vary) will be received which will increase the fund balance over this period.

26. Civil Parking Enforcement (£0.1m). This is a small earmarked fund that is held on behalf of the District and County Partnership which is responsible for the enforcement of on and off street parking in Leicestershire. It will be utilised for equipment and technology replacement in future years.
27. Waste Infrastructure (£1.4m). This will be utilised to fund the ongoing capital expenditure required to maintain the Recycling and Household Waste Sites (RHWS) in future years.
28. Section 38 Income (£0.4m). This is income received from Housing Developers paid in advance and used to cover County Council costs for design checking, on site inspection of works during construction and administration of the process to ensure newly built estate roads are to the required standard for adoption. The signing of the final certificate to agree new roads are at the required level should be carried out within a 4-year period. Section 38 income is paid into the earmarked fund and brought into the accounts to offset the costs in the year in which they are incurred. The majority of the current fund balance will be utilised over the next four years. However, it should be noted that additional funding may become due and be received over this period which would increase the balance on this fund.
29. Section 106 Income (£0.2m). Funding received to meet developer-related revenue expenditure (such as subsidised bus services and travel packs linked to new developments) and where there are no specific conditions for the funding to be repaid. The majority of the current fund balance will be utilised over the next four years. However, it should be noted that additional funding may become due and be received over this period which would increase the balance on this fund.
30. Leicester and Leicestershire Integrated Transport Model (LLITM) (£1.1m). This earmarked fund is for money generated from charging other local authorities for using the model. Surplus income is added into the fund and will be used to finance activity to refresh the model when required in around 3 years' time. Updating the LLITM is important to ensure it accurately predicts the impact of future prospective developments and supports potential bids for future major schemes.
31. Capital Major Projects - advanced design (£0.4m). This earmarked fund will be used to fund feasibility studies and advance design works to enable bids to be made for major capital schemes to improve the transport infrastructure supporting expected growth in Leicestershire.
32. Other earmarked funds (£0.1m). These funds will be used for partnership transport projects.

Chief Executive's

33. Community Planning (£0.1m). This funding is held to support a range of various initiatives with partners and communities.
34. Economic Development (£1.3m). This earmarked fund is held to provide funding for economic development initiatives.
35. Leicestershire Local Enterprise Fund (£0.2m). This earmarked fund was established to provide funding for a business loan scheme. This scheme has now achieved its short term objective to help ensure that Leicestershire businesses have access to loan funding. As a result the County Council has commenced disinvestment from the scheme. A total of £0.8m has been released from the fund and added to the Economic Development fund for priority schemes linked to economic development in Leicestershire.
36. Legal (£0.3m). This earmarked fund is held to provide funding for temporary solicitor posts to cope with current and transformation demand.
37. Signposting and Community Support Service (£0.5m). This fund is held to mitigate the impact of the withdrawal of Government funding for the Leicestershire Welfare Provision. The funding was provided from underspends in the scheme's two years of operation (2013/14 and 2014/15) and is used to temporarily support signposting and community support for vulnerable people, with the aim of minimising the on-going costs of this service over the next four years.
38. Other (£0.6m). This earmarked fund holds funding towards a variety of projects and contingencies. The projects are phased over several years and include: efficiency projects, planning control work, and funding received from (and ring fenced to) crime fighting and prevention.

Corporate Resources

39. Corporate Resources Other (£0.5m). The main purpose of this earmarked fund is to provide funding to efficiency projects and one off initiatives in Corporate Resources. Examples of activities funded are investigating asset management changes/improvements and ICT development work.

Corporate

40. Transformation (£19.3m). The fund is used to invest in transformation projects to achieve efficiency savings and also to fund severance costs. To achieve the level of savings required within the MTFs the Council needs to change significantly and this requires major investment including in some of the core 'building blocks' of transformation such as improvements to data quality and improvements to digital services enabling more self-service.
41. Capital Financing (£27.7m). This fund is used to hold MTFs revenue contributions to fund capital expenditure including the Street Lighting LED replacement project and the Corporate Asset Investment Fund where funding is required in future years. The significant increase in 2016/17 relates to planned contributions from the

2016/17 forecast underspend at Period 6, approved by Cabinet in October 2016 for investment in the Corporate Asset Investment Fund, energy strategy and highways maintenance that will be required in 2017/18 and later years as per the draft four year capital programme.

42. East Midlands Shared Services (£0.4m). County Council funding set aside for investment in Oracle development projects to support the shared service.
43. Environmental / Energy Efficiency programme (£0.0m). This funding has been set aside to support various invest to save projects to reduce carbon emissions and generate future revenue savings. The programme has been superseded with the Energy Strategy programme included in the Capital Programme.
44. Elections (£0.8m). The average cost of County Council elections is estimated to be £0.8m every four years, unless there are other elections on the same date that can share the cost. The earmarked fund is built between elections using budgeted annual contributions of £0.2m.
45. Broadband (£6.0m). This fund was established to allow the development of super-fast broadband within Leicestershire. A contract has been entered into with BT for phase 2 of the programme. There is a significant time lag in spending County Council funds due to grant conditions that required Central Government and other funding contributions to be spent within a set period. The funding is expected to be spent in 2017/18 and 2018/19.
46. Loughborough University Science and Enterprise Park (£1.1m). This fund is held for investment in partnership with Loughborough University towards the next phase of development on the Science and Enterprise Park campus.
47. Business Rates Retention (£1.4m). This fund was established following the introduction of the Business Rates Retention system in 2013 and is held as a contingency to fund potential shortfalls in business rates income impacting in later years, especially the risk of large appeals and fluctuations in Business Rates income.
48. Local Authority Mortgage Scheme (LAMS) (£-8.4m). The County Council has invested £8.4m in the Local Authority Mortgage Scheme to make it easier for first time house buyers to obtain mortgages and thus stimulate the local housing market and benefit the wider local economy. Investment of £3m in 2013/14 and £5.4m in 2012/13 has been advanced to Lloyds bank, temporarily funded from the overall balance of earmarked funds. The funding will be returned to the County Council, 5 years after the date it was advanced, in 2017/18 and 2018/19.
49. Pooled Property Fund(s) (-£25m). The Cabinet on 11 September 2015 and 11 October 2016 approved the investment of £15m and £10m respectively of the Council's earmarked funds into pooled property funds. These investments will raise interest receivable by a significant amount, in effect replacing £25m earning 0.25% with £25m earning around 4%. The investment is funded from the overall balance of earmarked funds and can be realised in the future when required.

50. Inquiry and other costs (£2m). This fund is held to provide funding for inquiry and other costs associated with historical child sexual exploitation.

Other

51. Potential Health transfers (£3m) – Estimate of year end transfers to the County Council.

Schools / Partnerships Earmarked Funds

52. Dedicated Schools Grant (£1.7m). DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School and Early Years Finance (England) Regulations. Any underspend on services funded by DSG must be carried forward and ring fenced to those services. This fund is earmarked to fund any deficit budget that reverts back to the local authority as maintained schools move into sponsored academy arrangements and also to meet the revenue costs of commissioning places in new schools. A forecast overspend on the Schools revenue budget in the current year is reflected in the reduction as at 31st March 2017. The fund will also need to absorb the pressures around the delay of the national school funding reform, and the ability to fund future school growth.
53. Children and Family Services Health Outcomes (£0.0m). Funding received from the NHS at year end in relation to health transfers. Grant funding is received from the NHS which can be substituted with existing County Council expenditure thereby creating underspends that have been transferred to the earmarked fund. The fund is forecast to be fully used in 2016/17.
54. Health and Social Care (£2.5m). This earmarked fund is used to fund projects that improve health and social care outcomes in Leicestershire, including the prevention of admission and readmission into hospital as well as the prevention of other costly health and social care provision. Funding for these projects has been aligned with the strategic objectives of the Better Care Fund (BCF) and has been agreed between the County Council and partners from the NHS. Approximately £1m of the fund has been set aside as a contingency for underperformance against future pay for performance BCF metrics.
55. Leicestershire and Rutland Sport (£0.7m). The earmarked fund's main purpose is to hold partner contributions until expenditure on the agreed activities has been incurred. A significant part of the services funding from external agencies is uncertain in nature, so the earmarked fund also allows management of funding variations and a redundancy provision.
56. Centre of Excellence (£0.9m). The Centre of Excellence for Information Sharing is a local-national collaboration, funded by multiple government departments. It is hosted by Leicestershire County Council, and has a team of people from across national and local organisations. The organisation's vision is for users of public services to achieve better outcomes as a direct result of improved information

sharing between agencies and local places. The earmarked fund is held on behalf of the Centre of Excellence to fund ongoing work.

57. Leicestershire Social Care Development Group (LSCDG) (£0.4m). This earmarked fund is held on behalf of the LSCDG, a partnership with Leicester City Council. Funds are held on behalf of the partnership to meet the Director of Adults and Communities responsibility for workforce development in social care regardless of the sector. The monies are solely for the independent and voluntary sector across Leicester and Leicestershire.
58. East Midlands Shared Services – Other (£0.5m). This relates to the County Council's share of the 2015/16 underspend on the joint committee (EMSS). The fund is held for investment in future EMSS developments and will be directed by the joint committee.

Other Issues

59. There are real advantages to the County Council of having a strong balance sheet in a period of economic crisis. These are obvious, such as a greater ability to weather financial shocks, but there are also advantages such as the ability to use this strength to implement policy decisions such as LAMS and the Leicestershire Local Enterprise Fund that offset, to an extent, the impact of the failure of banks to provide finance.
60. The overall level of earmarked funds includes significant balances for capital financing (£27.7m forecast at the end of 2016/17) which are required to fund the County Council's Capital Strategy. These resources have been set aside from revenue underspends, surplus earmarked funds and the current MTFs, to avoid the need to undertake external borrowing.
61. Members requested details regarding earmarked funds where the latest projections varied significantly from the previous forecast. Appendix D gives details of earmarked funds where forecasts as at 31st March 2017 have varied by more than £0.5m.

Schools Earmarked Balances

62. Schools and colleges are allowed to retain their accumulated balances in relation to delegated budgets. Schools balances have increased from £7.6m in 2014/15 to £11.8m at the end of 2015/16, mainly as a result of the prudent use of resources and underspend of budgets. The largest balances held are to smooth out cost increases and particularly staffing costs, for land and building works and ICT investments.

General County Fund

63. The General County Fund is held to meet any unexpected risks. The balance on the General County Fund was £14.8m as at 31st March 2016 and is expected to remain at £14.8m in 2016/17.

64. The policy on the General County Fund has been to maintain balances in line with the inherent risks faced by the County Council. The required level of earmarked funds is kept under review during the year and a more formal assessment is undertaken at the time the Medium Term Financial Strategy (MTFS) is rolled forward. The policy will be to continue to maintain a level of the General County Fund consistent with the overall financial environment. The level of the General County Fund is currently within the target range of 4 to 5% of net expenditure (excluding schools), the balance of £14.8m represents 4.3% of net expenditure for 2016/17.

Risk Assessment

65. As part of the earmarked funds review, the risk assessment was revisited given the rapidly changing financial environment. This shows that the risks faced by the County Council are increasing. The key risks are set out below;
- Public finances continue to deteriorate with the prospect of further cuts in funding into the next decade, which will increase the County Council's savings requirement.
 - The localisation of business rates and changes to Council Tax Benefit mean that the income of the Council will be less predictable and potentially subject to in year shocks.
 - Environment including extreme weather.
 - Service pressures resulting in overspends. Although overall the Council is underspending, pressures within Adults and Children's social care are increasing. National funding changes could exacerbate these pressures.
 - Potential cuts to grant funding for Public Health.
 - Funding the introduction of the National Living Wage.
 - Increase in demand for SEN transport.
 - Potential steep rises in general inflation and in specific areas such as energy.
66. The current MTFS includes a contingency in the budget of £8m over the four years of the MTFS. This needs to be considered alongside the General County Fund in relation to the risks faced by the County Council.

External Audit Review

67. KPMG, our external auditors have reviewed the level of reserves as part of their Value for Money review of the 2016-20 MTFS and reported that given the uncertainties and service pressures that lie ahead the overall level of earmarked funds held are appropriate for the size of the organisation.

Management and Monitoring of Earmarked Funds

68. At present, information on earmarked funds is provided in the following reports;

- February – MTFS reports to the Cabinet and County Council. These reports contain the earmarked funds policy, forecast levels of funds and statement on the robustness of estimates, risks and funds.
- June/July – MTFS Provisional Outturn report to the Cabinet and Scrutiny Commission. These reports contain the key movements and the actual year end balances.
- September – Statement of Accounts report to Constitution Committee. This report sets out the earmarked funds in detail and includes a commentary and a statement showing all the transfers to and from the earmarked funds.
- Autumn review of earmarked funds to the Cabinet and Scrutiny Commission.

Conclusion

69. The review of earmarked funds has identified that the level of earmarked funds (excluding Dedicated Schools Grant and partnerships) is expected to be around £72.5m by the end of 2016/17.

Background Papers

None.

Circulation under Local Issues Alert Procedure

None.

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List of Appendices

Appendix A – Earmarked Funds Policy
Appendix B – Earmarked Funds Restated
Appendix C – Earmarked Funds Projection

Appendix D – Earmarked Funds where balance projected at 31/3/17 has varied by more than £0.5m

Equality and Human Rights Implications

There are no direct implications arising from this report.