



SCRUTINY COMMISSION 5th SEPTEMBER 2007

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

EARMARKED RESERVES

Purpose of report

1. This report sets out the current position on earmarked reserves including justification for the levels of reserves.

Policy Framework and previous decisions

2. This report was requested at the previous meeting of the Commission.
3. The Medium Term Financial Strategy agreed by the County Council incorporates a policy on reserves and a list of all the reserves and estimated balances thereon.

Background

4. Attached as an appendix is the schedule of cash backed earmarked reserves with balances as at 31st March 2007.

Requirement for Reserves

5. Set out below is an explanation of the purpose and level of each reserve held.
6. The balance of £8.5m on the County Fund (i.e. the unearmarked reserve) represents 2.9% of net budgeted expenditure (excluding schools) and is therefore within the target range of 2% - 3% as per the reserves policy which is based on a risk assessment.
7. Insurance reserve (£6.37m) – To meet future claims to enable the Council to meet the excesses not covered by external insurers. Insurance companies usually impose excess levels on their cover. Accepting higher levels of excess based on past claims experience has proved to be more cost effective than paying higher premiums for greater insurance cover. These are currently £500,000 per claim on buildings and £150,000 on public and employer's liability. The latter in particular can involve claims requiring legal judgements that take a number of years to settle.
8. Renewals £4.59m – To enable services to plan and finance an effective programme of vehicle and equipment replacement. These reserves are a mechanism to smooth expenditure on asset replacement so that

a sensible replacement programme can be achieved without the need to vary budgets.

9. Reconfiguration of services. Under the change management banner the Authority is in the process of making major changes to the way services are delivered. This includes areas such as the highways efficiency review, customer first and shared services. With increasing focus on efficiency this reconfiguration will continue and accelerate. With many of these projects significant up front investment is required. This will include severance costs, project management and ICT. The change management reserve is £4.1m and the severance reserve is £2.75m.
10. Adult Social Care (ASC) – A reserve of £2.3m has been established to pump prime invest to save projects including self directed care, developing new ways of working including the learning disability pooled budgets for commissioning and integrated provision and further development of direct payments, particularly for day care services. The balance of £0.8m will be used to address ASC demand and costs pressures in future years.
11. Local Area Agreement – At the commencement of the LAA in 2006, Cabinet agreed that a combination of LAA pump priming grant (£1.3m) and a contribution from LCC reserves (£1.65m) would be allocated to pump prime the achievement of targets across the LAA. The balance on the reserve (£1.22m) represents the funds to be spent from the County Council contribution as the schemes will run until the end of 2008/9. The contribution from reserves will be repaid to the County Council from anticipated reward grant for achieving LAA targets.
12. Industrial Properties (£1.68m) - Surpluses arising on the provision of Industrial Properties are credited to this reserve which will be used to finance capital and revenue expenditure, including development of the Industrial Estate.
13. Property (£1.05m) – Central Maintenance Fund - Provides for landlord repairs to the majority of the Council's establishments. A rolling programme of works can thus be undertaken which spans financial years. The balance represents uncompleted orders.
14. Children's and Young Persons Services - Non delegated Dedicated Schools Grant (£1.59m) will be ring fenced for schools. The other reserves provide resources to protect Sure Start resources (£1.75m) following delays to the expanded children's centres and extended schools programmes.
15. Building schools for the future - The Melton and Vale of Belvoir review is expected to cost c£45m (capital). There will also be some associated revenue costs. Once BSF is introduced further pump priming will be required. To meet initial costs a £0.7m reserve has been established.

16. Waste Strategy - Resources (£2.4m revenue and £0.75m capital) have been set aside from underspending to finance the implementation of a county wide waste strategy to increase recycling and reduce landfill.
17. Highways – resources have been set aside to:
 - (a) Provide for the advance design of potential major highway improvement schemes that will be subject to government approval (£0.45m).
 - (b) Meeting revenue set up costs from the introduction of parking enforcement in conjunction with district councils throughout the county during the summer of 2007 (£0.4m).
 - (c) Support to the introduction of county-wide free concessionary travel, the balance will be used in 2007/8 (£0.37m).
 - (d) Transitional funding for highway maintenance (£0.5m) to offset the reduction arising from a lower than anticipated government allocation that was incorporated into the MTFS.
 - (e) Commuted Sums (£0.42m)– These are funds received from property developers when as part of a new development infrastructure items such as street lights are of a more costly standard than the County Council would have adopted. The sums are held to meet future maintenance and replacement costs over periods up to 30 years.
18. Shire Grants (0.61m) - Grants awarded to statutory and voluntary organisations that remain to be claimed by the recipients.
19. Equal Pay (£0.5m) – At present an equal pay audit is taking place and the results are expected in the autumn. This reserve has been established to meet any anticipated one-off costs arising from the audit. Compared with other County Councils who have yet to implement job evaluation this is a very modest reserve.
20. Other – Various small reserves including the East Midlands Regional Assembly revenue reserve, Youth Offending Service reserves and Castle House.

Conclusion

- 21 The level of reserves has increased in recent years to reflect the costs of significant issues faced by the County Council which involve major corporate change including the costs of making efficiency savings and reconfiguring services. However it should be noted the level of earmarked and general reserves is still below average for county councils.

Equal Opportunities Implications

None specifically

Background Papers

Statement of Account 2007/8

Circulation under Sensitive Issues

None

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Scrutiny Reports 2007/Earmarked Reserves