



**SCRUTINY COMMISSION – 6 NOVEMBER 2013**

**REVIEW OF EARMARKED FUNDS, BALANCES AND CONTINGENCIES**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**Purpose of Report**

1. To report to the Commission the findings of a detailed review of revenue earmarked funds.

**Policy Framework and Previous Decisions**

2. The earmarked funds strategy was approved by the County Council at its budget meeting on 20 February 2013 as part of the Medium Term Financial Strategy (MTFS). The earmarked funds are reviewed three times during the financial year.

**Review of Earmarked Funds**

3. The review covered all revenue earmarked funds, excluding schools. 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 County Council as part of the Medium Term Financial Strategy (MTFS) (a copy is attached as **Appendix A**).
5. The level of earmarked funds excluding schools was £99.9m as at 31 March 2013, 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.
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 31<sup>st</sup> March 2014.

### **Renewals of Equipment and Vehicles (£5.5m)**

8. Departments hold earmarked funds to provide funds for the future replacement of vehicles (the County Council has a fleet of around 500 vehicles) and equipment such as ICT.
9. The earmarked funds are;
- Adults and Communities (£0.6m). This earmarked fund provides finance for the future replacement of equipment and vehicles and to establish a fund to replace the Management Information System.
  - Environment and Transport (£2.4m). This is mainly used to fund 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. There is also a small element that will be utilised to fund replacement of departmental management information systems (such as STADS which is used within the Sustainable Transport Group). These earmarked funds are not built up from budgeted contributions (nor are any further contributions budgeted for in future years). Instead, when under spends have occurred within departmental budgets, these have been in part utilised to boost the balances on these earmarked funds. It is expected that the balance will reduce by about £0.6m in the current year and by a further £0.6m in 2014/15.
  - Corporate Resources (£2.5m). This will be used to fund renewal of the ICT infrastructure, the largest single item being the wide area network (£700k) in 2014/15. Within the reserve £180k has been transferred to the corporate resources other fund for use on other ICT projects not directly linked to renewals (see below).

### **Trading accounts (£0.5m)**

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 earmarked funds (£11.9m)**

11. Earmarked funds of £6.1m are held to meet the estimated cost of future claims to enable the Council to meet excesses not covered by insurance policies. The levels are recommended by independent advisors. Excesses include:
- Fire £500,000
  - Public / Employers' liability £150,000
  - Professional indemnity £25,000

- Fidelity guarantee £100,000
  - Money – completely self-insured.
12. Schools LMS earmarked fund (£0.5m). To reduce the cost of contents insurance to schools the County Council arranges cover 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. The fund is also used to fund risk management initiatives to try and reduce claims in future years.
  13. The uninsured loss fund of £4.8m 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 run-off is regulated by a scheme of arrangement entered into by the creditors of MMI. The scheme of arrangement 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.
  14. Following the Supreme Court Judgement in relation to the 'trigger point' litigation of March 2012, which was not in favour of MMI, the net estimated liabilities for the company are believed to be in the region of £85m. The County Council's share of this is based upon the value of its current paid and outstanding claims and is £2.2m. This sum has been set aside in a provision. However there is a contingent liability for any additional deficit due to the uncertainty of the value of incurred but not reported claims. Experience to date has been a worsening position with actual claims exceeding the forecast made by MMI's actuaries. Hence the level of this fund will be kept under review and transfers made, as necessary, from the uninsured loss fund, to take account of the latest MMI run-off position and other failed insurers such as The Independent Insurance Co. Limited.
  15. Other (£0.5m) is a similar contingency for the school staff absence and maternity schemes operated by the County Council. This will be spent as the schemes wind down (claims can come in after the financial year end, or claims that have started may extend beyond the end of the year).

#### **Committed Balances (£1.8m)**

16. 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, £1.2m and the earmarked fund for community grants, £0.6m (includes shire grants, community forums and Big Society grants). Due to the on-going nature of maintenance it is expected that there will always be a large balance on these funds.

#### **Children and Young People's Service**

17. Youth Initiatives (nil). Projects have been agreed and the fund will be spent by 31/3/14.

18. Area special school (nil). This was a contingency held towards the cost of the Charnwood area special school. The project is almost completed and pending the final cost of the scheme the £2m contribution is not required. The funds have been transferred to the Invest to Save/ Severance earmarked fund.
19. Early Intervention Grant Transition (£3.2m). This is the balance of funding set aside in 2010/11 to ease the impact of significant reductions in government grants to Children and Young Peoples Services. The fund is earmarked to offset an overall shortfall in early intervention funding in 2014/15. An amount of £0.25m has been transferred to the Invest to Save/ Severance earmarked fund as part of the reallocation of balances at 1/4/13.
20. Other (£0.8m). Includes unused funding from former specific grants. The earmarked fund is being used to fund improvements to information management and performance management systems and completion of the current CYPS transformation programme.

### **Adults and Communities**

21. Adults and Communities Development (£2.5m). This earmarked fund was established from revenue underspends and is used to fund a number of investments in maintaining social care service levels and improving in-house facilities over the next 4 years including;
  - £0.8m earmarked for replacing the SSIS care management and finance system (hardware, project resource and training). The replacement system is currently being implemented with go live scheduled for early 2014.
  - £0.4m is being used to ensure the review of all service users as part of the Effective Support efficiency saving and to support improvements in the customer journey through the Self-Directed Support project.
  - £0.2m is being used to support the Community Life Choices Personal Budget team which are increasing the number of service users on personal budgets.
  - £0.1m is being used to support the care pathway, currently employed in locality teams.
  - £1.0m of investment identified to modernise Community Life Choice in-house facilities. This investment will be considered alongside the Community Life Choices Strategy and efficiencies programme.
22. Health & Social Care earmarked fund (£8.8m). An earmarked fund was created in 2010/11 following agreement to substitute funding from the NHS for Winter Pressures and Post Discharge Reablement with expenditure already incurred by the County Council. Similar arrangements took place in 2011/12 and 2012/13. Members approved the use of the earmarked fund to 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. The authority has undertaken a commitment to make decisions, relating to this funding, together with partners from the NHS and District Councils through the Integrated Commissioning Board (ICB) for Leicestershire.

23. The ICB are beginning the financial planning process for health transfer funding incorporating medium term planning. It is envisaged that £6.2m for health and social care outcomes will be allocated to projects to be spent over the medium term. There may be an opportunity to use any uncommitted reserves following this planning to support increasing demands and / or more effectively managed efficiencies in the short term
24. The other key spend priorities are:
  - £1.5m Migration of community alarms system for separate district provision to countywide service provision
  - £0.6m “Winter Pressures” spend over the next 4 years
  - £0.2m for developing integrated health and social care solutions such as an Integrated Crisis Response pilot
  - £0.2m Reablement scheduling system
  - £0.1m Funding of Integrated Commissioning Board (ICB) approved short term health and social care projects
25. Housing Related Support (formerly Supporting People) (£0.7m). The earmarked fund is being used to fund staff, 24 hour housing related support in the existing five extra care schemes and a contract extension for housing related support from April 2013 to March 2015.
26. Museums and Arts (£0.1m). This earmarked fund represents the income received from the sale of artefacts. The fund will be used to maintain the quality of existing collections.
27. Adults and Communities Extra Care (£0.6m). This earmarked fund was created in 2012/13 from an element of the New Homes Bonus grant. The fund will be used to provide finance for extra care schemes. A scheme is currently in development in Blaby. Further opportunities are also being scoped and developed.

### **Public Health**

28. Public Health (£7.1m). The Public Health earmarked fund now incorporates the funding received from the PCT relating to the substance misuse pooled treatment budget (Primary Preventative Programme), to reflect the transfer of the responsibility to Public Health (£1.6m). The NHS grant for Public Health was above the level of historic expenditure, recognising the historic underfunding in Leicestershire. This has meant that the fund can be redirected from funding a budget shortfall in Public Health to be used for preventative activities. This is planned to be spent at a rate of £1.0m per annum to provide a stable service. The

fund could be higher than forecast at the end of the year (c.10%) depending upon how the Department of Health decides to allocate expenditure between LCC and the Clinical Commissioning Groups.

### **Environment and Transport**

29. Commuted sums (£1.5m). 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 in the highway). These liabilities can arise many years in advance of when the funding is received and as such a link is not always made between work undertaken at these developments and the contributions received, and as such the balance on this earmarked fund has built up over time. The intention is to utilise the resources over the next few years (£150,000 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 will be received which will boost the reserve balance over this period.
30. Civil Parking Enforcement (£140,000). 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.
31. Waste Infrastructure (£1.3m). This is available to fund the improvement to the Recycling and Household Waste Site (RHWS) and Waste Transfer Station (WTS) at Whetstone, the replacement of the access bridge and development of a WTS at Loughborough RHWS and improvements to Kibworth RHWS. The majority of this fund is being used in 2013/14 and 2014/15.
32. Section 38 Income (£0.3m). This is income received from 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 the 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 three 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.
33. Section (106) (£0.3m). 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 existing balance will be utilised over the next 4 years to offset relevant costs as they are incurred, but again, additional funding may become due which would lead to further contributions into this earmarked fund.

### Chief Executive's

34. Supporting Leicestershire's Families (£3.6m). This funding is held for:
- Fund the new supporting Leicestershire's Families service (£3.3m).
  - Funding relating to the Youth Offending Service (£0.4m transferred from the Youth Justice and Safer Communities fund), covering money held on behalf of the Youth Justice Partnership and the balance of the transitional funding provided in the 2011/12 budget to ease the transition to reduced funding from the Home Office.
35. Placed Based activities (£2.9m). This funding will be used to fund the programme team that support the existing and developing placed based initiative, and provide the funding of the Substance Misuse and successor to the Aging Well projects and to provide leverage to attract additional funding from Government and external partners. Note this fund (£3.57m) has been separated from the Supporting Leicestershire Families fund as at 1/4/2013.
36. Community Planning (£0.7m). The main use of the earmarked fund is to support the roll-out of broadband for rural areas that are not supported by the main BT contract.
37. Leicestershire and Rutland Sport (£1m). The earmarked fund's main purpose is to hold partner contributions towards the service 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.
38. Economic Development (£2.8m). An earmarked fund established as part of the autumn 2012 review, to provide funding for economic development proposals. The largest single element is the establishment of a business loans scheme (£1m), which will provide a gradual return of funding to the County Council, unless it is reinvested.
39. Legal (£0.5m). The reserve is held to provide funding for temporary solicitor posts to cope with the current demand and to provide a contingency for unforeseen external legal and ombudsman claims.
40. Other (£1.1m). This earmarked fund holds funding towards a variety of projects and contingencies. The projects are phased over several years and include; efficiency projects, municipal waste development framework, and funding received from (and ring fenced to) crime fighting and prevention.

### Corporate Resources

41. Corporate Resources Other (£1m). 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, consultancy work for disposing of assets and ICT development work.

42. Leicestershire Social Care Development Group (LSCDG) (£0.3m). The earmarked fund is held on behalf of the LSCDG, a partnership with Leicester City Council. Funds are held on behalf of partners 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 the sub region.

### **Corporate**

43. Invest to Save / Severance (£18.2m). This has been set aside to fund transformation and invest to save projects to achieve efficiency savings. It will also be used to fund severance costs.
44. Change Management Programme (£1.5m). This earmarked fund is used to supplement the budget available for significant change projects. The largest elements are the capital and revenue expenditure required to support the planned developments in the capital programme, namely Online Technology and Property Management Information System.
45. East Midlands Shared Services (£0.7m). This is used to fund the Leicestershire County Council contribution to the establishment of EMSS. The fund is expected to be used in 2014/15.
46. Environmental / Energy Efficiency programme (£0.5m). This funding has been set aside to support various invest to save projects to reduce carbon emissions and generate future revenue savings.
47. Academies Programme (£0.2m). This earmarked fund was established to meet the one off legal, finance and other costs associated with academy conversion. The majority of the fund is anticipated to be used in 2013/14 and 2014/15.
48. Local Authority Mortgage Scheme (LAMS) (£-4.3m). This fund was established to part fund the LAMS scheme. Cabinet approved a £10m contribution. To date a total of £7.4m has been advanced to Lloyds TSB. £3.1m of this has been funded from revenue underspends in previous years and non-required earmarked funds. The balance of £4.3m has been temporarily funded by utilising other earmarked funds that are unlikely to be fully used over the next five years such as repairs and renewals or Insurance funds (the funding will be repaid to the County Council after 5 years). The first repayment (£5.4m) is payable in 2018/19 with the balance of £2.0m repayable in 2019/20.
49. Elections (£0.3m). The average cost of County Council elections is estimated to be £1m 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 £0.3m.



50. Broadband (£6m). The Council Tax freeze grant for 2012/13 was approved as part of the MTFS 2012 to be set aside to develop super-fast broadband to areas with poor service. A contract has been entered into with BT and they have commenced preparation work. There is a time lag in spending LCC funds due to grant conditions that required Central Government and European funding to be spent within a set period.
51. East Midlands Councils (£0.6m). This earmarked fund is used as a holding account for various grants that contain no formal conditions for repayment and span multiple years. It also contains unallocated balances to offset any future liabilities. The fund will be transferred to EMC in 2014/15 when the County Council withdraws from being the servicing authority.

### **Other**

52. Potential Health transfers (£10m) – Estimate of year end transfer to the County Council.
53. City of Culture – Cabinet on 13<sup>th</sup> September 2013 approved the use of up to £2m of the 2013/14 projected net revenue underspend to contribute to activity in the county to support the City of Culture bid.
54. Dedicated Schools Grant (£3.9m) DSG is ring fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2012. Any underspend on services funded by DSG must be carried forward and ring fenced to those services.

### **Other Issues**

55. 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 that offset, to an extent, the impact of the failure of banks to provide finance.

### **Schools earmarked funds**

56. Schools and colleges are allowed to retain their accumulated balances in relation to delegated budgets. Schools balances have reduced significantly from £18.1m in 2011/12 to £8.4m at the end of 2012/13, as a result of academy conversions.

### **General County Fund**

57. The General County Fund is held to meet any unexpected risks. The balance on the General County Fund has increased to £10.7m as at 31<sup>st</sup> March 2013 from £10.4m as at 31<sup>st</sup> March 2012.
58. 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 2 to 3% of net expenditure (excluding schools), the balance of £10.7m represents 3% of net expenditure for 2013/14. It has to be noted that additional risks now face the County Council including those that arise from local government funding changes such as the localisation of business rates and council tax support from 2013/14 and anticipated further funding reductions over the medium term.

59. 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 are deteriorating with the prospect of further cuts.
  - 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 overspend. Although overall the Council is underspending, pressures within Adults and Children's social care are increasing. National funding changes could exacerbate these pressures.
  - Potential shortfalls in funding of transferred services, e.g. Public Health.
60. The current MTFS includes a contingency in the budget of £4.5m increasing to £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. At this stage it is not necessary to alter the level of the General County Fund given the contingency and that there is potentially some flexibility in some earmarked funds. However, this will be revisited as part of rolling forward the MTFS.

### **External Audit Review**

61. PricewaterhouseCoopers (PWC), our external auditors, have recently reviewed the 2013/14 – 2016/17 MTFS. This was reported to the Corporate Governance Committee. This review covered a number of aspects including earmarked funds and contingencies. The review showed that the uncommitted General County Fund balance of £10.7m, which represents 3% of net spend, is lower than the benchmark group, where an average of 3.5% of net spend was held as a general fund. However, earmarked funds of £99.9m (excluding schools) at 28% of net spend were higher than the average data collected.

62. PWC concluded by stating, in the context of earmarked reserves and contingency, that, "Whilst these are larger than other similar local authorities, we believe that you have taken a prudent approach in setting your MTFS". The report goes on to give the County Council an unqualified value for money opinion but notes that risks continue to surround the delivery of the MTFS.

### **Management and Monitoring of earmarked funds**

63. At present information on earmarked funds is provided in the following reports;
- February – MTFS reports to Cabinet, County Council and Scrutiny Commission. These reports contain the earmarked funds policy, forecast levels of funds and statement on the robustness of estimates, risks and funds.
  - June/July – Outturn report to Cabinet and Scrutiny Commission. These reports contain the key additions to earmarked funds from underspends.
  - 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.

### **Conclusions**

64. The review of earmarked funds has identified that;
- The risks faced by the County Council are increasing, particularly in 2013/14 and that the balance of the General County Fund is lower than other authorities.
  - £2.25m of earmarked reserves are no longer required and these have been released to the Invest to save/severance fund (see **Appendix B**).
  - At the time of agreeing the MTFS further information will be available that could mean further earmarked funds will be released.
  - That the level of earmarked funds is expected, excluding Dedicated Schools Grant, to fall to £96.4m by the end of 2013/14.

### **Recommendations**

65. The Scrutiny Commission is asked to note the findings of this review.

### **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

**Equal Opportunities Implications**

There are no specific implications arising from this report.