



SCRUTINY COMMISSION – 5 NOVEMBER 2014

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

REVIEW OF EARMARKED FUNDS, BALANCES AND CONTINGENCY

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 19 February 2014 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) – copy attached as Appendix A.
5. The level of earmarked funds excluding schools was £97.1m as at 31 March 2014, 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 include:

- Transfer of Supporting Leicestershire Families (£4.65m) and Youth Offending (£0.41m) earmarked funds from Chief Executives to Children and Family Services;
 - Transfer of the DAAT earmarked fund (£1.59m) to the Public Health earmarked fund;
 - Transfers totalling £0.25m from the Community Planning earmarked fund to the Community Grants (£0.05m) and Broadband (£0.2m) earmarked funds;
 - A transfer of £1m from the Economic Development earmarked fund to establish a new fund for Leicestershire Local Enterprise;
 - Transfers of elements of earmarked funds which are no longer required for their original purposes to the Transformation Fund - £1.6m regarding Insurance (reduction in amount required for property damage reflecting very good claim experience), £5m from Public Health (reallocation of earmarked fund to be consistent with the MTFs), £0.6m from Place Based Activities, £0.1m from Legal and £0.3m from a fund for the Minerals and Waste Plan.
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. 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 2015 have varied by more than £0.5m.
8. The following paragraphs consider each earmarked fund in detail and show a projection of the balances at 31st March 2015.

Renewals of Equipment and Vehicles (£2.4m)

9. 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.
10. The earmarked funds are;
- Adults and Communities (£0.5m). This provides finance for the future replacement of equipment, vehicles and departmental IT systems.
 - Environment and Transport (£0.7m). 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 an element that will be utilised to fund replacement of departmental management information systems (such as STADS (Schools Transfer Administration Database System) 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 underspends have occurred within

departmental budgets, these have been in part utilised to boost the balances on these earmarked funds.

- Corporate Resources (£1.2m). This will be used to fund renewal of the County Council's ICT infrastructure. The balance on the fund is reducing in line with the progress of several major projects, for example the Windows 7 upgrade and the area network replacement projects. A balance on the fund will be maintained to manage higher than average demand in individual years and to save for future planned upgrades.

Trading Accounts (£0.5m)

11. 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 (£13.6m)

12. Earmarked funds of £8.4m 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 assessed periodically through an Actuarial Review. The next review is planned for the end of 2014/15 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
13. Local Management of Schools (LMS) earmarked fund (£0.2m). 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. The fund is also used to fund risk management initiatives to try and reduce claims in future years.
14. 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.
15. During 2013/14 the County Council paid a levy of £2.2m, as required by the scheme of arrangement; however there is a contingent liability for any additional deficit due to the uncertainty of the value of incurred but not reported claims. MMI's recently released accounts show a significantly worsening position with actual

claims exceeding the forecast made by MMI's actuaries. Hence the level of this fund will be kept under review to take account of the latest MMI run-off position and other failed insurers such as The Independent Insurance Co. Limited.

16. Other (£0.2m) is a contingency 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 built up from premiums charged to schools and is expected to continue at similar levels in future years.

Committed Balances (£2.5m)

17. 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), £1.7m and the earmarked fund for community grants, £0.8m (includes shire grants and big society grants). Due to the on-going nature of maintenance it is expected that there will always be a large balance on the CMF fund.

Children and Family Services

18. Supporting Leicestershire Families (£2.4m). This earmarked fund has been transferred from the Chief Executive's department and will fund the Supporting Leicestershire's Families service.
19. Early Intervention Grant Transition (nil). This is the balance of funding set aside in 2010/11 to ease the impact of significant reductions in government grants to Children and Family Services. The £3.2m balance on the fund is being used to support the approved 2014/15 MTFS.
20. Children and Family Services Developments (£1.8m). The earmarked fund is held to fund improvements to information management systems, Children and Family Services transformation programmes and one-off activities such as responding to high profile issues including child sexual exploitation.
21. Youth Offending Service (£0.2m). This is now a Children and Family Services earmarked fund following the transfer of the service from the Chief Executives Department.

Adults and Communities

22. Adults and Communities Developments (£1.5m). 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 (review of in-house regulated adult social care services, Help to Live at Home, Customer Journey Simplification), temporarily supporting staff within the care pathway, funding potential costs of IAS Phase 2 and supporting the impact of the new Care Act from 1st April 2015.

23. Health and Social Care (£4.1m). 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 and has been agreed between the County Council, partners from the NHS and District Councils through the Health and Wellbeing Board. The Integration Executive for Leicestershire has operational oversight of all NHS transfers to the Council. An estimated £1m is planned to be used in 2015/16 on: Assistive Technology (£0.1m), to relieve pressure on hospitals through admission avoidance (£0.6m), and to support hospital discharges (£0.3m). The remaining balance, of the earmarked fund, £3.1m, has been set aside as a contingency for underperformance against the 3.5% targeted reduction in hospital admissions, the pay for performance aspect of the Better Care Fund.
24. Housing Related Support (formerly Supporting People) (£0.5m). The earmarked fund is held to provide funding to support the Early Intervention and Prevention Review.
25. Museums and Arts (nil). This earmarked fund represented the income received from the sale of artefacts. The fund is used to maintain the quality of existing collections.
26. Adults and Communities Extra Care (£0.9m). This earmarked fund was created from elements of the New Homes Bonus grant that were ringfenced by Cabinet for Extra Care schemes. Schemes are currently in development in Blaby and Charnwood. Further opportunities are also being scoped and developed.

Public Health

27. Public Health (£1.8m). 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 or other beneficial activities. Plans for use of the fund are being formulated.
28. Leicestershire and Rutland Sport (£0.6m). 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.

Environment and Transport

29. Commuted sums (£2.1m). 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 on 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 therefore the balance on this earmarked fund has built up over time. The intention is to utilise the resources over the next few years (£0.7m 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 (£0.5m per year) will be received which will increase the fund balance over this period.

30. 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.
31. Waste Infrastructure (£1.1m). This is available to fund general improvements to the Recycling and Household Waste Sites (RHWS), the remaining costs of the Waste Transfer Station (WTS) at Whetstone and a new transfer station at Coalville. By the end of the 2016/17 financial year it is expected that most of this fund will have been utilised.
32. Section 38 Income (£0.5m). 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 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 Income (nil). 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 remaining balance is expected to be utilised in the current year.
34. Leicester and Leicestershire Integrated Transport Model (LLITM) (£0.9m). This is money identified to update the Leicestershire and Leicester Integrated transport model to ensure it accurately predicts the impact of future prospective developments and supports potential bids for future major schemes. This is expected to be spent by 2016.

Chief Executive's

35. Community Planning (£0.3m). This funding is held to support a range of various initiatives with partners and communities within Leicestershire including support for affordable rural housing for older people.
36. Economic Development (£1.4m). This earmarked fund was established to provide funding for economic development proposals. These proposals are contained in the Enabling Growth Plan that is currently in draft form.

37. Leicestershire Local Enterprise Fund (£1m). This earmarked fund was established to provide funding for a business loan scheme which will provide a gradual return of funding to the County Council, unless it is reinvested.
38. Legal (£0.3m). This earmarked fund is held to provide funding for temporary solicitor posts to cope with the current and transformational demand and to provide a contingency for unforeseen external legal and ombudsman claims.
39. Signposting and Community Support Service (formerly Leicestershire Welfare Provision) (£0.9m). This fund is proposed to mitigate the impact of the expected withdrawal of Government funding for the Leicestershire Welfare Provision. The funding will be established from underspends in the scheme's two years of operation (2013/14 and 2014/15) and will be 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.
40. Other (£0.5m). 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

41. Corporate Resources Other (£0.6m). 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. Funding is also held on behalf of the Multi Agency Travellers Unit.
42. Leicestershire Social Care Development Group (LSCDG) (£0.4m). The 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 the sub region.

Corporate

43. Medium Term Financial Strategy (Transformation/Severance/Budget Stabilisation) (£29m). This has been set aside to fund transformation and invest to save projects to achieve efficiency savings. The fund includes £5m transferred from the Public Health earmarked fund to support the general MTFS at £1m each year over the period 2015/16 to 2019/20. The fund will also be used to fund severance costs. As part of the 2015-19 MTFS the composition of this fund will be reviewed together with a reassessment of the level of the uncommitted General Fund to reflect the increasing risks facing the County Council.

44. East Midlands Shared Services (£0.7m). This is used to fund the Leicestershire County Council contribution to the joint work with Nottingham City Council around EMSS and the associated information systems. This fund has lasted longer than expected due to not all of the original project costs being incurred. However there is a requirement for further development work to be undertaken.
45. 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. The fund will be reassessed as part of the 2015-19 MTFS.
46. Academies Programme (nil). This earmarked fund was established to meet the one off legal, finance and other costs associated with school academy conversion. The balance of the fund is anticipated to be used in 2014/15.
47. 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 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.
48. Elections (£0.4m). 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.
49. Broadband (£6.2m). This fund was established to allow the development of super-fast broadband within Leicestershire. A contract has been entered into with BT and they have commenced work. There is a significant time lag in spending County Council funds due to grant conditions that required Central Government and European funding to be spent within a set period.
50. Loughborough Science Park (£1.1m). This fund was established from a provision in the 2013/14 budget for an investment in partnership with Loughborough University and Charnwood Borough Council towards the next phase of development on the Science and Enterprise Park campus.
51. Other (£0.5m). This amount relates to the balance of funding set aside to fund the development of a school place planning strategy to support significantly increased capital funding in 2015-18.
52. East Midlands Councils (nil). This earmarked fund was used as a holding account for various grants that contained no formal conditions for repayment and spanned multiple years. It also contained unallocated balances to offset any future liabilities. The fund will be transferred to Nottingham City Council, on behalf of EMC, in 2014/15 as the County Council has withdrawn from being the servicing authority.

Other

53. Potential Health transfers (£5m) – Estimate of year end transfers to the County Council.
54. Dedicated Schools Grant (£4.9m) 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.

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 and the Leicestershire Local Enterprise Fund that offset, to an extent, the impact of the failure of banks to provide finance.
56. A number of the earmarked funds are held in partnership with other bodies where decisions are taken jointly by the relevant bodies. Of the forecast balance of £77.9m at 31 March 2015, a total of £7.8m is held on behalf of partnerships. These include:
 - Leicestershire and Rutland Sport £0.6m
 - Leicestershire Social Care Development Group £0.4m
 - Supporting Leicestershire Families £2.4m
 - Youth Offending Service £0.2m
 - Civil Parking Enforcement £0.1m
 - Health and Social Care Outcomes £4.1m

Schools Earmarked Funds

57. Schools and colleges are allowed to retain their accumulated balances in relation to delegated budgets. Schools balances have reduced from £8.4m in 2012/13 to £8.1m at the end of 2013/14, mainly as a result of academy conversions.

General County Fund

58. The General County Fund is held to meet any unexpected risks. The balance on the General County Fund has increased to £10.8m as at 31st March 2014 from £10.7m as at 31st March 2013.
59. 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 £10.8m represents 3% of net expenditure for 2014/15.

60. 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 in funding for the next five years which will increase the County Council's savings requirement to £120m.
 - 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.
 - Shortfall in funding for the Care Act. The costs, although uncertain are likely to be significant.
 - Potential shortfalls in funding of transferred services, e.g. the transfer of health responsibilities to Public Health.
61. The current MTFS includes a contingency in the budget of £4m 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. Even so, the General Fund will be reviewed as part of the MTFS and it is likely it will increase given the significant risks faced by the County Council.

External Audit Review

62. PricewaterhouseCoopers (PWC), our external auditors, have reviewed the 2014/15 – 2017/18 MTFS. This was reported to the Corporate Governance Committee on 12 May 2014. This review covered a number of aspects including earmarked funds and contingencies. The review showed that the uncommitted General County Fund balance of £10.8m, which represents 3% of net spend, is at the lower end of the benchmark group, where a range between 2% and around 7% of net spend was held as a general fund. However, earmarked funds of £97.1m (excluding schools) at 28% of net spend were higher than the average data collected (around 12%), although PWC noted that the level of earmarked funds reduces to a level more comparable with the benchmark group in later years of the MTFS.
63. PWC concluded by stating, in the context of earmarked funds and contingency, that, "Whilst these are larger than in other similar Local Authorities, we believe that

you have taken a prudent approach in setting your MTFS. These reserves will be required to effectively deliver the transformation you require." 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.

Review of other County Council's General Funds and Earmarked Funds

64. The level of general fund and earmarked funds of other County Councils has been reviewed. Details are given in the table below:

	Net Budget 2014/15	General Fund Balance 31/3/14	General Fund as % of Budget	Earmarked Funds excluding Schools	Earmarked Funds as % of budget
	£m	£m		£m	
Buckinghamshire	321.5	31.1	9.7%	113.6	35.3%
Cambridgeshire	365.9	12.3	3.4%	19.6	5.4%
Derbyshire	482.1	43.1	8.9%	132.6	27.5%
Devon	513.8	18.3	3.6%	56.5	11.0%
Dorset	272.4	19.8	7.3%	60.4	22.2%
East Sussex	373.8	8.9	2.4%	115.5	30.9%
Essex	892.9	57.4	6.4%	220.6	24.7%
Hampshire	748.2	27.7	3.7%	203.5	27.2%
Kent	912.6	31.7	3.5%	192.8	21.1%
Lancashire	759.5	36.0	4.7%	218.5	28.8%
Leicestershire	352.2	10.8	3.0%	97.1	27.6%
Nottinghamshire	504.3	29.1	5.8%	138.2	27.4%
Somerset	326.2	31.9	9.8%	36.0	11.0%
Staffordshire	476.7	15.9	3.3%	45.5	9.5%
Worcestershire	332.6	13.0	3.9%	87.4	26.3%
Average			5.3%		22.4%

65. On average Counties hold the equivalent of 5% of their budget in general funds. Given the increasing risks the County Council faces in future years, an increase from the current 3% limit (see paragraph 59) to a higher level will be considered as part of the 2015 Medium Term Financial Strategy.

Management and Monitoring of Earmarked Funds

66. 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 – 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 Cabinet and Scrutiny Commission.

Conclusions

67. The review of earmarked funds has identified that;

- The risks faced by the County Council are increasing and that the balance of the General County Fund is lower than other authorities.
- £7.6m of earmarked funds are no longer required and these have been released to the Transformation 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 £77.9m by the end of 2014/15.

Recommendations

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

Background Papers

None.

Circulation under Local Issues Alert Procedure

None.

Equal Opportunities Implications

There are no specific implications arising from this report.

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 31/3/15 has varied by more than £0.5m

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