

APPENDIX J

EARMARKED FUNDS POLICY 2021/22

General Fund

The level of the General Fund would ordinarily reflect the overall financial environment and the key financial risks faced by the County Council. The amount held will be reviewed at least annually. Any funds in excess of the assessed amount will in the first instance be used to fund one off expenditure (capital and revenue including invest to save and pump priming initiatives) and secondly to support recurring revenue expenditure over the medium term, subject to the key consideration of sustainability.

Holding non earmarked funds is essential in enabling the County Council to manage unforeseen financial events without the need to make immediate offsetting savings. This allows better decisions to be made and reduce the impact this could have on users of County Council services.

Based on an assessment of risk, the target level for the General Fund is within the range of 4% to 7% of net expenditure (excluding schools). The forecast balance of £20m (4.5%), by the end of the MTFS is within that range but towards the bottom reflecting the tighter financial pressures of the Council. Following the creation of an earmarked fund for known risk areas, including the High Needs DSG deficit, the target level has been reduced for 2021/22. The overall assessed level of risk has not reduced, funds are now split between the General Fund and the earmarked reserve.

In reviewing the level of the General Fund the Cabinet will take advice from the Director of Corporate Resources.

The uncertainty of costs resulting from Covid-19, projections of reductions in core income and increased ongoing expenditure will mean further pressure on the general fund reserve in later years.

As such it is necessary to ensure that plans are in place so that unforeseen events do not exhaust the general fund. A key part of the plan is to impose increased restrictions on the use of earmarked funds in order to provide additional financial resilience.

Earmarked Funds

Earmarked funds are traditionally held for six main reasons. The key factors that determine their level are set out below:

- Insurance fund – to meet the estimated cost of future claims not covered by insurance policies.
- Renewals – to enable services to plan an effective programme of systems, equipment and vehicle replacement. These earmarked funds are a mechanism to allow a sensible replacement programme, that can vary in size depending upon need, without the requirement to vary annual budgets.

- Trading accounts – in some instance surpluses in excess of the budgeted level are retained by the traded service for future investment.
- Other earmarked funds will be set up from time to time to meet predicted liabilities or unforeseen issues that arise.
- To support transformational and departmental change.
- Meet commitments made that will be incurred in the future. Examples include; completion of projects, County Council contributions to partnership funding, commitments in the MTFS such as the Capital Programme.

Reserves are not suitable for on-going service commitments.

Given the increased financial pressures, additional measures need to be put in place. These measures are set out below.

- Departments to identify specific and known planned expenditure to be funded from reserves. These will be held centrally as earmarked funds.
- After allowing for this, general departmental reserves above a minimum allowance allowing departments to manage day to day, smaller essential interventions etc, will be centralised.
 - A&C £250,000
 - CFS £250,000
 - E&T £250,000
 - CR £100,000
 - CE £50,000
 - PH £50,000
- The above limits will be reviewed annually as part of the new MTFS.
- All reserves above this amount to be brought into the general fund
- Trading surpluses will be brought back into central control – services impacted can request funding to support specific investments along with other services.
- All reserves set aside for asset renewals will be managed centrally based on consideration of regular departmental submissions
- Schools and partnership reserves will be unaffected by these changes. However, there must be a clear plan of purpose for each reserve.

The Director of Corporate Resources has the authority to take decisions relating to the creation and management of earmarked funds.

Schools Earmarked Funds

Schools balances are held for two main reasons. Firstly, as a contingency against financial risks and secondly, to save to meet planned commitments in future years. Decisions on these funds are taken by individual schools.

Monitoring Policy

The level of earmarked funds and balances are monitored regularly throughout the year. Reports will be taken to members as part of the MTFS, an update in the autumn and at year end.