

## Reserves and Budget Robustness Statement

### 1.0 Reserves

- 1.1 The Council's (ESCC) approach to the management and accounting for earmarked reserves is set out in the Reserves and Balances Policy approved by Cabinet in September 2021, at Annex A. The Reserves have been reviewed using the principles set out in the Policy ensuring that they are appropriately giving consideration to the Council's strategic agenda and the current financial risks and issues the Council faces through the medium term.
- 1.2 It is crucial to bear in mind that the reserves are the only source of financing to which the Council has access to fund risks and one-off pressures over a number of years. If the Council minimises the level of reserves too significantly there is a risk that in future, the ability to properly manage unforeseen or one-off costs will be significantly impaired. Reserves can only be spent once and the possibility of creating new reserves is limited in an era where budgets are tight and can become overspent, not just individually but corporately.
- 1.3 Reserves are a key element of the Council's financial management arrangements. Reserves can be broadly categorised as follows:
- **Earmarked Reserves** - funds that are held to meet known or anticipated future one-off requirements, facilitating transformation and the management and mitigation of future financial risk and uncertainty.
  - **General Fund Balance** - a working balance to manage in-year risks if they cannot be managed via other mitigations. It is best practice for a well-run authority to hold such a balance to assist in delivering services over a period longer than one financial year.
- 1.4 Earmarked Reserves and the General Fund Balance are estimated to total £146.1m as at 1 April 2023, falling to an estimated £83.4m by 31 March 2027; the majority of these reserves are held on behalf of others, statutorily ringfenced or set aside for known risks. £24.6m relates to available strategic reserves. This position represents the known planned use for these reserves and is summarised in table 1 below, with further detail following.

Table 1: Summary of Reserves	01.04.22 Actuals per Q2 Cabinet Report	Estimated Balance at 31.03.26 per Full Council Feb 22	Full Council February 2023 (£m)	
			01.04.23 Estimate	Estimated Balance at 31.03.27
<b>Earmarked Reserves:</b>				
<b>Held on behalf of others or statutorily ringfenced</b>	<b>35.1</b>	<b>34.2</b>	<b>35.7</b>	<b>33.9</b>
<b>Named Service Reserves</b>				
Waste Reserve	17.0	9.7	18.8	7.5
Capital Programme Reserve	18.9	7.5	17.9	0.3
Insurance Reserve	7.3	5.3	7.2	7.1
Adult Social Care Reform Reserve	0.0	0.0	2.5	0.0
<b>Subtotal named service reserves</b>	<b>43.2</b>	<b>22.5</b>	<b>46.4</b>	<b>14.9</b>
<b>Strategic Reserves</b>				
Financial Management	47.3	21.8	41.3	22.5
Priority Outcomes and Transformation	17.3	3.2	12.7	2.1
<b>Subtotal strategic reserves</b>	<b>64.6</b>	<b>25.0</b>	<b>54.0</b>	<b>24.6</b>
<b>Total Earmarked Reserves</b>	<b>142.9</b>	<b>81.7</b>	<b>136.1</b>	<b>73.4</b>
<b>General Fund Balance</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>	<b>10.0</b>
<b>TOTAL RESERVES</b>	<b>152.9</b>	<b>91.7</b>	<b>146.1</b>	<b>83.4</b>

- 1.5 **Held on behalf of others or statutorily ringfenced** balances cannot be used for everyday Council activity and comprise, at 1 April 2023, £21.3m schools' balances which cannot legally be spent on ESCC activities, ringfenced Public Health Reserve of £7.4m and other balances held on behalf of others totalling £7.0m.
- 1.6 **Named Service Reserves** are set aside at a level considered appropriate to manage specific financial risk, amount to £46.4m and comprise of: -
- Waste Reserve – to manage financial risks relating to the waste contract and legislative change. These risks are reviewed and managed through this reserve on a 4-year rolling programme; the reserve is shown as reducing to reflect emerging risks, which include but are not limited to reduced recycle prices increasing disposal costs, reduced recycling during collection contractor transition in the next two years, and changes in law/compliance with waste regulations/contractor policy change.
  - Capital Programme Reserve – to support the Council's Capital Programme and to reduce the need to borrow, that has a consequential increase in pressure on revenue budgets.
  - Insurance Reserve – this is to fund insurance liabilities that have arisen over previous years, based on the liability estimated by the Actuary in 2022 and other local knowledge and represents estimates that may become payable in 2023/24 and beyond.
  - Adult Social Care Reform Reserve – set up to support the financial risk of this reform. Unallocated funding to support reform in 2022/23 will be held in reserve to meet the costs of preparing for reform in 2025.
- 1.7 **Strategic reserves** are as follows: -
- A Financial Management reserve – to manage the potential financial consequences of risks recognised in the Council's risk management arrangements and the Chief Finance Officer's (CFO) robustness statement, including the risk of the pay award being over that planned within the Medium Term Financial Plan (MTFP). It also enables wider management of the medium-term financial strategy and the investment strategy.
  - The Priority Outcomes and Transformation reserve – to fund the transformation programme to change, protect and improve Council services, and programmes that meet the Council's priority outcomes.
- 1.8 **Movement:** The Earmarked Reserves and General Fund balances estimate totalling £146.1m at 1 April 2023 have decreased by £6.8m against the actual reserves at 1 April 2022 totalling £152.9m. Movements in year are:
- Capital reserve – a net decrease of £1.0m; the key movements being £4.0m estimated spend on specific projects offset by £3.0m transfer from the Treasury Management underspend reported for quarter 2. This is reflective of the use of reserve to fund items of investment for which the Council would not want to borrow and is consistent with the new capital strategy.
  - A net increase of £0.6m in reserves held on behalf of others or statutorily ringfenced.
  - Insurance reserve – a small decrease of £0.1m.
  - An increase of £1.8m in the Waste reserve, to reflect risks relating to the waste contract and legislative change.
  - An estimated increase of £2.5m in the Adult Social Care Reform reserve; the remaining balance of core funding earmarked for the initial costs less additional committed resources to support preparation for the reforms.
  - Financial Management (FM) – a net decrease of £6.0m, movements shown in Table 2 below.

**Table 2: Movements in FM Reserve 1 April 2022 to 1 April 2023**

Description	Movement
Balance after 2022/23 Finance Settlement to mitigate future risks around Children's Services, SEND, Adult Social Care, Funding Reform and Covid legacy.	£5.0m
Set aside for new Highways contract inflation	£0.5m
Investment Projects - Accommodation and Floating Support	£(0.5)m
Investment Projects - Edge of Care (formerly No Wrong Door)	£(1.1)m

Redundancies (all Depts)	£(1.2)m
Modernising Back Office Systems (MBOS)	£(8.1)m
Various other movements not exceeding £0.5m individually	£(0.6)m
<b>Total Movement</b>	<b>£(6.0)m</b>

- Priority Outcomes and Transformation (POT) – a net decrease of £4.6m, movements shown in Table 3 below.

**Table 3: Movements in POT Reserve 1 April 2022 to 1 April 2023**

Description	Movement
Services Grant set aside for one-off investment	£4.9m
Services Grant set aside for Cost of Living and Recruitment & Retention	£0.3m
Workstyles programme	£(0.7)m
Work to undertake the relocation of libraries and records management from Ropemaker Park	£(1.4)m
Future one-off investment on visible road improvements and climate change projects - capital element	£(6.2)m
Various other net movements not exceeding £0.5m individually	£(1.5)m
<b>Total Movement</b>	<b>£(4.6)m</b>

- 1.9 There has been a small movement overall in the estimated balances of strategic reserves since they were last reported; The balance at 31 March 2026 of the strategic reserves was estimated to be £25.0m and is now estimated at £24.6m as of 31 March 2027.
- 1.10 In addition to the reserves and balances set out above, Covid grant balances are held in the Grants and Contributions (IAS20) Reserve. The carry forward into 2022/23 of £23.1m of COVID funds provided the opportunity to continue to mitigate the impact of COVID during 2022/23, within grant conditions. The estimated balances are shown in Table 4 below:

**Table 4: Covid Grant Balances**

COVID-19 Grants	Carried forward 2022/23 £m	Estimated use in-year (including payback) £m	Future years set aside for Looked After Children £m	Estimated Balance £m
COVID-19 General Funding	14.1	(4.3)	(3.1)	6.7
COVID-19 Specific Funding	9.0	(9.0)		-
<b>Total funding</b>	<b>23.1</b>	<b>(13.3)</b>	<b>(3.1)</b>	<b>6.7</b>

- 1.11 It is essential that we maintain sufficient reserves to weather ongoing financial uncertainty and risk. It therefore continues to be a priority to, where possible, bolster the Financial Management reserve and the Priority Outcomes and Transformation reserve where the opportunity presents, and therefore this will apply to any unused contingency once the final outturn position is known, plus other one-off funding.
- 1.12 As in previous years, any changes to Business Rates and Collection Fund, as a result of movements at District and Borough estimates provided, will be managed through reserves in the form of a collection fund adjustment on the precept notice. Details of the reserves summarised above can be found in the Budget Summary at Appendix 3.

## 2.0 Chief Finance Officer Statement on the Budget Robustness

2.1 Section 25 of the Local Government Act 2003 places a statutory duty on the Chief Financial Officer (CFO) to review the Medium Term Financial Plan (MTFP) and comment upon the robustness of the budget and the adequacy of the reserves to be held by the authority when it is making the statutory calculations required to determine its Council Tax or precept. The authority is required to take this report into account when making that decision.

2.2 Section 26 of the Local Government Act 2003 places an onus on the CFO to ensure the authority has established a minimum level of reserves to be retained to cover any unforeseen demands that could not be reasonably defined within finalising the proposed budget.

## 3.0 Report of the Chief Financial Officer on the robustness of the 2023/24 budget proposal.

3.1 It is the opinion of the CFO that the draft budget for 2023/24 is based upon a sound financial strategy that will enable the Council to deliver its proposed Council Plan successfully.

3.2 Both the Revenue Budget and Capital Programme have been formulated having regard to a number of factors including funding availability; risks and uncertainties; inflation; priorities; demography and service pressures.

3.3 As the development of the Council Plan and budget for 2023/24 has progressed, the position has been subject to reviews with Chief Officers, other Officers, and Members, including Cabinet and Scrutiny Committees. Due consideration has also been given to reconciling the over-arching financial strategy with corporate priorities and hence all the proposals have been developed as an integral part of service planning (the process known as Reconciling Policy, Performance and Resources (RPPR)).

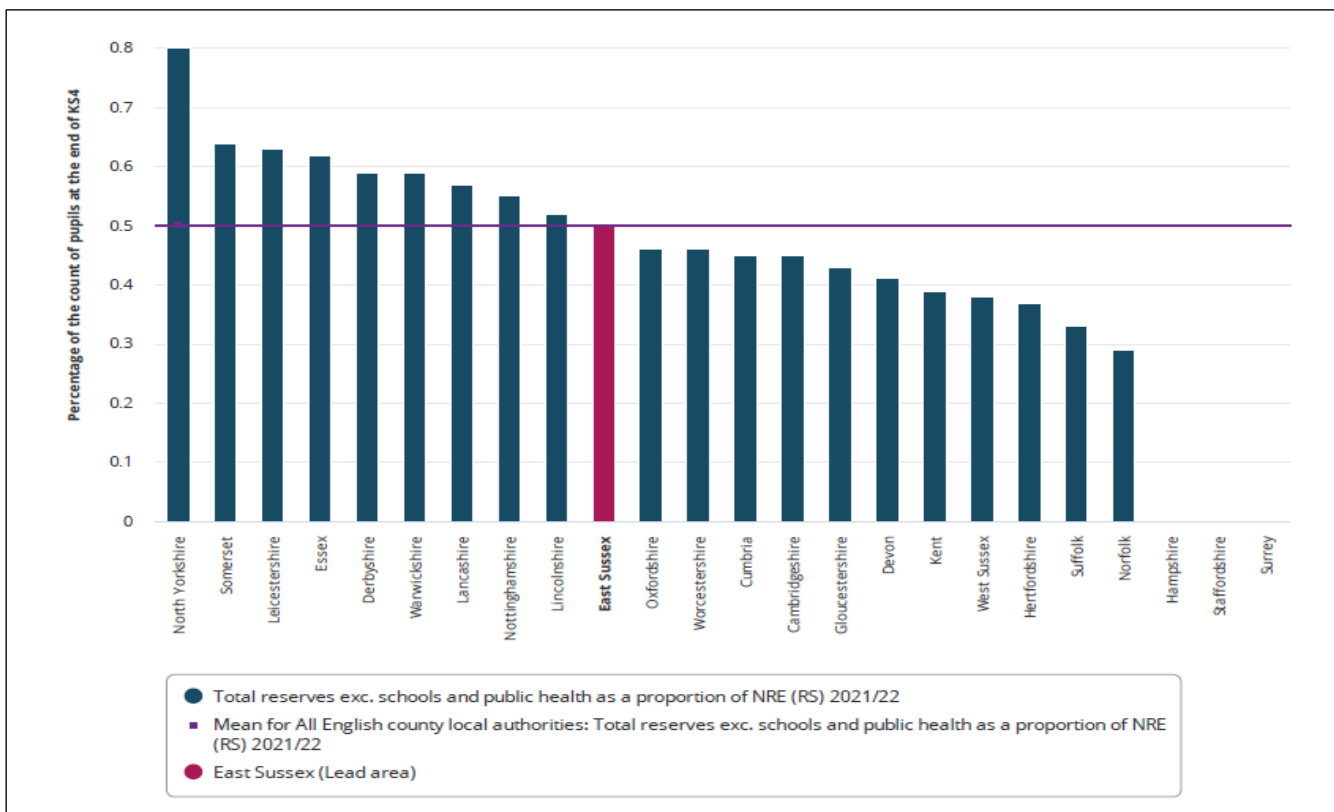
3.4 **The 2023/24 budget is balanced** and, in finalising the budget, consideration has been given to unforeseen issues that could arise during the year and ensuring that those risks can be managed. The strategic risk register has been reviewed and an analysis of ESCC's financial position in the current year has been carried out, to identify direct impacts and risks that are inherent within the 2022/23 budget. Notwithstanding that the draft budget for 2023/24 is balanced, there are risks to the budget around demand for social care, particularly within Children's Services, the cost-of-living crisis and the ongoing impact of inflation. The County Council holds a general contingency of £4.9m within the base revenue budget to cushion the impact of unexpected events and emergencies in year.

3.5 Increasing the Council Tax will provide a more sustainable income to the Council which will help to protect services. Implementing a 2.0% Adult Social Care precept and an allowed 2.99% Council Tax (before triggering referendum) will support and help protect services that are already under significant pressure.

3.6 The **Adequacy of Earmarked Reserves** has been reviewed and is considered reasonable. The approach remains to take every opportunity to increase reserves to help future proof Council services. The strategic reserves of £54.0m remain available for support to the MTFP and any unforeseen events arising; essential when considered in the context of recent events such as the pandemic and impact of the war in Ukraine. This represents 11% of Net Revenue Expenditure (NRE).

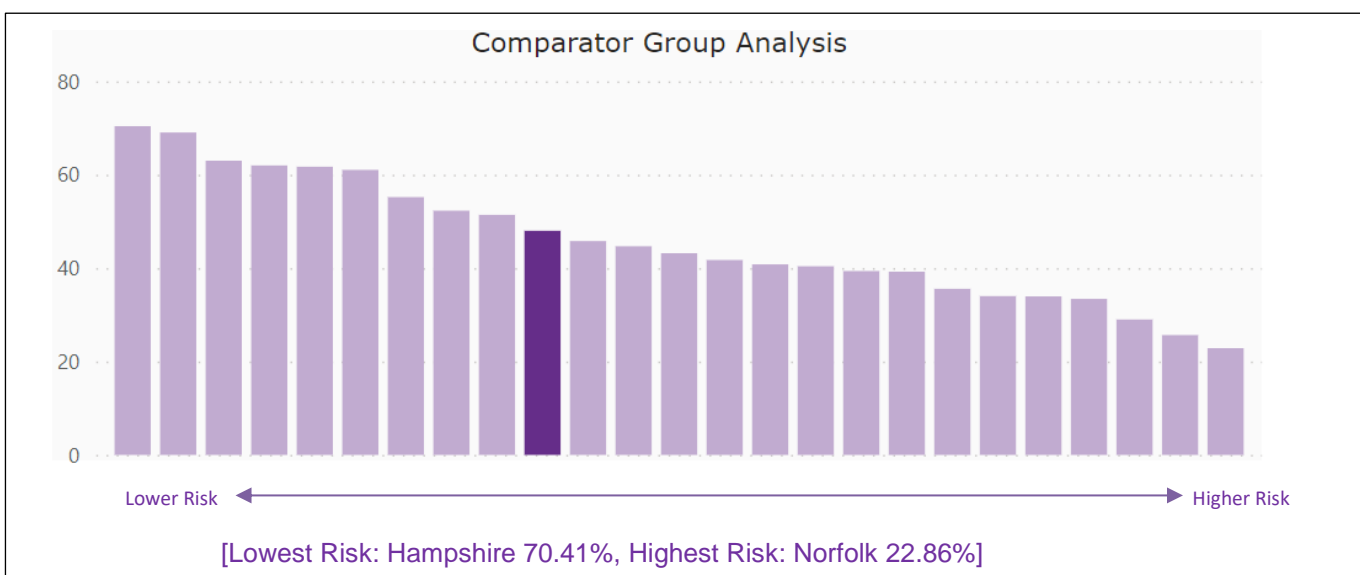
3.7 In support of this consideration, graph 1 below shows the LGA's analysis of unringfenced reserves as a % of net revenue expenditure in 2021/22. The Council is placed at 10<sup>th</sup> out of the 21 shire counties with available data, with reserves at 50% of net revenue expenditure.

**Graph 1: Unringfenced Reserves as a % of Net Revenue Expenditure 2021/22**



3.8 The CIPFA resilience index also provides an indicator of the robustness and reasonableness of levels of reserves. Graph 2 below published by CIPFA as part of this index in February 2022 looks at the current level of reserves as a percentage of net revenue budget (NRB). CIPFA describes these as usable reserves and exclude the public health reserve. It shows that ESCC (highlighted) held reserves of 48% in 2020/21 of NRB. The Council is in the lower middle quartile of risk, at 10<sup>th</sup> lowest risk of the 25 Shire Counties.

**Graph 2: Usable Reserves as a % of Net Revenue Budget 2020/21**

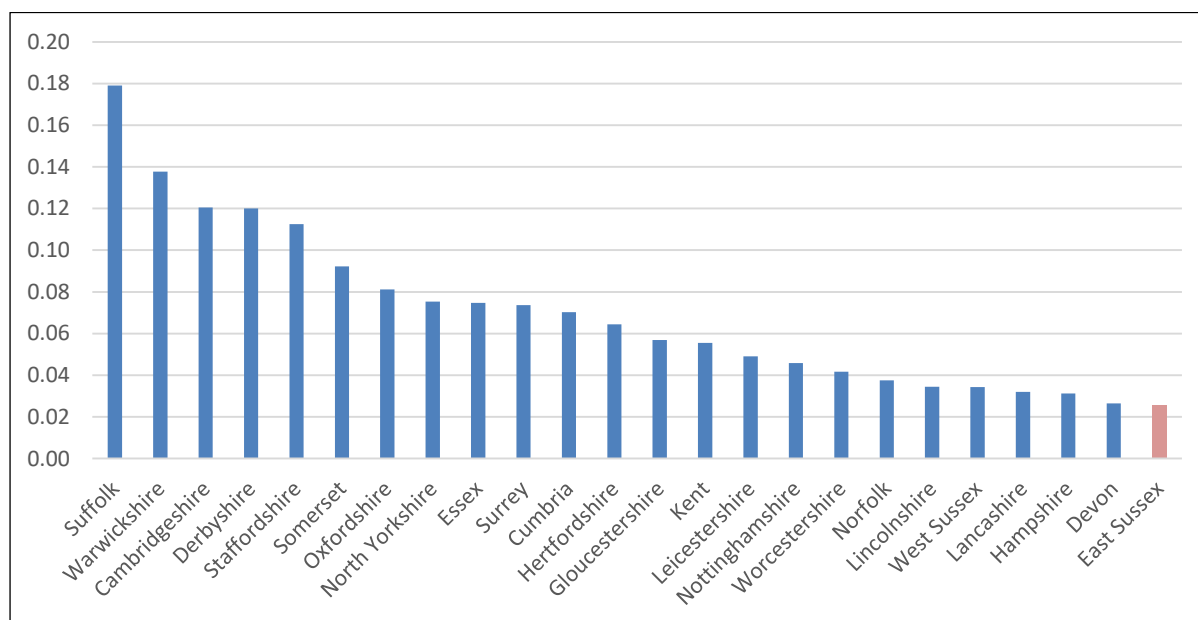


3.9 For the **General Fund Balance** there are two main approaches taken by Councils to determine their required minimum level; past guidance recommended that general fund should be equivalent to a certain percentage of an authority’s budget but in recent years that prescribed level has been

replaced by an assumption that finance officers will set aside an amount that they feel is appropriate given the levels of risk facing their authority.

- 3.10 The Local Government Association provided benchmarking data which shows that in 2021/22, the Council was ranked last out of the 24 shire counties in terms of general fund balance as a % of net revenue expenditure, see Graph 3 below.

**Graph 3: General Fund (unallocated reserve) as a % of Net Revenue Expenditure 2021/22**



- 3.11 Despite holding the lowest percentage of General Fund compared to other county councils at 2.57%, it is still considered sufficient as, in addition, the Council holds a general contingency of £4.9m (1% of NRE less Treasury Management) within the base revenue budget to cushion the impact of unexpected events and emergencies in year. If this contingency was included, the percentage for ESCC would increase to 3.82% which would put the Council at 7<sup>th</sup> lowest in the graph above.
- 3.12 The challenge is to maintain an appropriate level of reserves, whilst also mitigating the pressures faced within the MTFP.
- 3.13 In the Autumn Statement (17 November 2022) and provisional Local Government Settlement (19 December 2022) the government notes that there has been a significant increase in some local authority reserves over the two years of the pandemic. Local authorities are encouraged to use reserves to maintain services in the face of immediate inflationary pressures; taking account of the need to maintain appropriate levels of reserves to support councils' financial sustainability and future investment. Government will be exploring the publication of user-friendly data, collected in the Local Authority Revenue Expenditure and Financial Outturn Statistics, to support Council Members and local electorates to understand reserves held by their authorities.
- 3.14 A risk-based assessment of issues, which could have a major impact on the Council's finances, has been undertaken, which considers the type of risk, the estimated financial magnitude of the risk, considered potential variance to that risk, with the resulting financial impact should the scenario arise. Table 5 below identifies a number of the high-level risks that may have financial implications, which assist in determining and considering the required minimum level of General Fund Balance to be retained.

**Table 5: Financial Assessment of 2023/24 Risks**

Risk	Estimated Magnitude	Estimated Variance	Estimated Financial Impact
			£m
Risk of Growth in demand for services, particularly ASC hospital discharge and CSD Inclusion and Special Educational Needs (ISEN) plus Home to School Transport (HTST).	ASC 2023/24 budget £233.2m. CSD ISEN & HTST budgets for 2023/24 £29.2m.	3% increase	7.9
Risk that inflation on utilities where budgets were not uplifted for inflation become unmanageable within budget allocations, and the £1.3m provision being held centrally is not sufficient.	Total utilities budget 2023/24 circa £4.0m, less £1.3m provision.	10% increase	0.3
Risk that inflation on areas where budgets were not uplifted for inflation become unmanageable within budget allocations.	Total other budget (gross) 2023/24 circa £191.4m.	5% increase	9.6
Risk that inflation on pay is more than the contingency of 5% due to pressure from unions and political commitment.	Each 0.5% increase is approx. £0.8m.	0.5% to 2.5% increase	0.8 to 4.0
Non achievement of Fees & Charges targets built into the revenue budget, due to post pandemic impacts and the prevailing economic climate.	Planned Fees & Charges for 2023/24 is £65.6m.	Underachievement of 5%	3.3
Impact of the Cost-of-Living Crisis and recession on Business Rates and Council Tax collection rates.	Reduction in anticipated revenue from Business Rates and Council Tax.	Collection decrease by 5%	22.3
Changes in weather patterns leading to adverse weather conditions may present the Council with additional unfunded costs. The impact of weather as opposed to additional prevention cannot be quantified.	Historic winter maintenance spend is circa £1.1m.	10% increase	0.1
	Pressures due to unknown event impacts i.e., floods, subsidence.	5% of insurance reserve	0.4
National and international trade and supply chain issues causing excess inflation.	Inflation provided in MTFP is £35.5m for 2023/24.	5% increase to current provision	1.8

3.15 Taking everything into account, the General Fund Balance of £10.0m, is sufficient based on professional judgement which, given the level of risks, is a minimum general balance and remains lower proportionately than other shire counties. This is, however, considered adequate on the basis that the budget balances for 2023/24 and that in addition, as noted at 3.11, an in-year contingency is held.

3.16 The MTFP provides an estimated position for the next three years, shown at Table 6.

**Table 6: Medium Term Financial Plan Position**

£m	2023/24	2024/25	2025/26
Estimated Annual Deficit / (Surplus) - non cumulative	0.000	2.196	38.476
Estimated Annual Deficit / (Surplus) - cumulative	0.000	2.196	40.672

3.17 We are balancing the budget for 2023/24, and although there are challenges and significant levels of uncertainty, the Council has a robust planning process and sufficient reserves and will continue to strive towards a balanced position in 2024/25.

3.18 For future years work will continue to identify financial risks and pressures. In addition, the effects of a number of national funding decisions will impact on the financial position, the timing of which is yet to be determined. These are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potential significant financial impact, and include: -

- Adult Social Care reform and potential new burdens; whilst delayed until at least 2025.
- The impact of the levelling up agenda.
- A solution to Home to School Transport financial challenges.
- The future funding of social care.
- Impact of new Government policies.
- Potential taxation reform; and
- Environmental targets, including the impact of Climate Emergency.

3.19 The uncertainty regarding the future finance system means it is increasingly important to hold sufficient reserves to manage this unquantifiable financial risk. Therefore, it continues to be proposed that every opportunity should be taken to top up the Council's strategic reserves.



## Annex A - Reserves and Balances Policy

### 1.0 Background

This policy sets out the Council's approach to reserves and balances. The policy has regard to Local Authority Accounting Panel (LAAP) Bulletin 77 "Local Authority Reserves and Balances", issued in November 2008.

1.1 In reviewing medium-term financial plans and preparing annual budgets, the Council will consider the establishment and maintenance of reserves for the general fund. The nature and level of reserves will be determined formally by the Council, informed by the judgement and advice of the Chief Finance Officer (CFO).

### 2.0 Types of Reserve

The Council will maintain the following reserves:

- A working balance to manage in-year risks, called the General Fund Balance.
- A means of building up funds to meet known or predicted requirements, called Earmarked Reserves.

2.1 Earmarked reserves will be maintained as follows:

- priority outcomes and transformation reserve: to fund the transformation programme to change, protect and improve Council services, and programmes that meet the Council's priority outcomes.
- financial management reserve: to manage the potential financial consequences of risks recognised in the Council's risk management arrangements and the CFO's robustness statement, and to enable the effective management of the medium-term financial strategy and investment strategy.
- named service reserves will be held specifically for the capital programme, waste contract risk, insurance risk and risks around Adult Social Care Reform.
- other reserves will be held on behalf of others (e.g., Schools) and/or statutorily ring-fenced (e.g., Public Health).

2.2 The Council will also maintain a number of other reserves that arise out of the interaction between legislation and proper accounting practices. These reserves, which are not resource-backed, are for accounting purposes and will be specified in the annual Statement of Accounts.

### 3.0 Principles to assess the adequacy of reserves

The CFO will advise the Council on the adequacy of reserves. In considering the general reserve, the CFO will have regard to:

- the strategic financial context within which the Council will be operating through the medium-term.
- the overall effectiveness of governance arrangements and the system of internal control.
- the robustness of the financial planning and budget-setting process.
- the effectiveness of the budget monitoring and management process

3.1 Having had regard to these matters, the CFO will advise the Council on the monetary value of the required general reserve.

3.2 In considering specific reserves, the CFO will have regard to matter relevant in respect of each reserve and will advise the Council accordingly.

4.0 Underspends

The process for determining the specific use of any underspend will be based upon the principles of effective financial management. Therefore, underspends will not automatically be carried forward via reserves, nor will they only be available to the service that has identified the underspend.

4.1 Periodically during the year, Services will be asked to submit business cases for the use of underspend. Business cases will be determined by the CFO in conjunction with the Corporate Management Team. These will then be held in a Strategic Reserve.

5.0 Use of reserves

Members, as part of agreeing the budget, will agree the policy for drawdown of reserves on the advice of the CFO. Use of reserves will be approved by CMT and reported to Cabinet as part of the RPPR monitoring process.

5.1 The CFO will monitor the drawdown of specific reserves in accordance with the agreed policy, and keep Members advised.