

## Reserves and Budget Robustness Statement

### 1.0 Chief Finance Officer Statement on the Budget Robustness

- 1.1 Section 25 of the Local Government Act 2003 places a statutory duty on the “Chief Financial Officer” (Section 151 Officer) to review the Medium Term Financial Plan 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.
- 1.2 Section 26 of the Local Government Act 2003 places an onus on the Chief Financial Officer 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.

### 2.0 Role of the Chief Finance Officer

- 2.1 Under Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988, the Chief Finance Officer (CFO) is responsible for the proper administration of the Council's financial affairs.
- 2.2 The statutory duties of the CFO are set out in the Constitution of the County Council. This includes the requirement to report to the County Council, Cabinet, and external auditor if the Council's expenditure is likely to significantly exceed the available resources.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) has published a statement on the Role of the CFO in Local Government. The Statement requires that, to ensure that they can operate effectively and perform their core duties, the CFO:
- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
  - must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy; and
  - must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- must lead and direct a finance function that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

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

- 3.1 Whilst the budget has been prepared on a sound financial basis, following the reconciling policy, performance and resources (RPPR) process, and will deliver the proposed Council Plan, **there is a significant underlying deficit position**. In presenting a balanced budget for 2024/25 I must advise that **£14.3m of reserves have been used**.
- 3.2 The impact of increased service demands and inflation, together with the increase in national living wage and lack of additional government funding for social care in the Local Government Settlement, mean that the deficit position will continue. This is not a sustainable position. In order to address the position, the Council will need to instigate work to identify a range of actions that it will need to take

to set a balanced budget for 2025/26, without the need to draw significantly on reserves. The current projected deficit for 2025/26 is £45.3m.

- 3.3 The **Adequacy of Earmarked Reserves** has been reviewed and whilst these are considered adequate to enable the council to set a balanced position for 2024/25, strategic reserves are projected to reduce to £25.0m by 2028 after taking into account the planned draw for 2024/25, which underlines the need for actions to be taken if government funding is not forthcoming. The use of reserves in this way means the council has had to abandon its usual approach of maintaining reserves to help future proof Council services from unforeseen risks.
- 3.4 The Revenue Budget has been formulated having regard to several factors including funding availability; risks and uncertainties; inflation; priorities; demography and service pressures. As capital investment decisions have a direct impact on the council's revenue budget, particularly relating to borrowing costs, the Capital Programme has been reprofiled with the intention of setting a more realistic and affordable programme that reduces pressure on the Medium Term Financial Plan (MTFP).
- 3.5 As the development of the Council Plan and budget for 2024/25 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.
- 3.6 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 2023/24 budget, which is significantly overspending. There are pressures on budget from demand for social care placements and the impacts of inflation, which the OBR now predicts will be higher than previously forecast, and the announcement of NLW increases on the social care provider market. The County Council holds a general contingency of £5.3m within the base revenue budget to cushion the impact of unexpected events and emergencies in year.
- 3.7 Increasing the Council Tax will provide a more sustainable income to the Council which will help to mitigate some of this risk. Implementing the 2.0% Adult Social Care precept and the allowed 2.99% precept (before triggering referendum) will support and help protect services that are already under significant pressure. However, the level of Council Tax required to set a balanced budget for 2024/25, without having to draw upon reserves, would be 9.09%, which is not an option.

#### **4.0 Reserves**

- 4.1 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 reflective of the Council's strategic agenda and the current financial risks and issues the Council faces through the medium term.
- 4.2 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.
- 4.3 Reserves are a key element of the Council's financial management arrangements. Reserves can be broadly categorised as follows:

- **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.
- **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.

4.4 ESCC General Fund Balance and Earmarked Reserves are projected to total £119.4m as of 1 April 2024: a decrease of £28.6m against the actual reserves at 1 April 2023 totalling £148.0m.

Movements in year are:

- Priority Outcomes and Transformation (POT) – a net decrease of £11.5m, movements in 2023/24 shown in Table 2 below.

**Table 2: Movements in POT Reserve 1 April 2023 to 1 April 2024**

Description	Movement
Tfr to Capital Programme Reserve for highways, agreed at Cabinet June 23	(£5.6m)
Tfr future one-off investment to Capital Programme Reserve for highways & climate emergency	(£3.8m)
Various other movements not exceeding £0.5m individually (net)	(£2.1m)
<b>Total Movement</b>	<b>(£11.5m)</b>

- Financial Management (FM) – A net decrease of £10.1m, movements in 2023/24 are shown in Table 1 below.

**Table 1: Movements in FM Reserve 1 April 2023 to 1 April 2024**

Description	Movement
Modernising Back Office Systems (MBOS)	(£5.8m)
Investment Projects - Connected Families (formerly Edge of Care)	(£1.1m)
Forecast revenue overspend at Q2	(£1.7m)
Highways Contract Mobilisation	(£0.8m)
Investment Projects - Accommodation and Floating Support	(£0.7m)
<b>Total Movement</b>	<b>(£10.1m)</b>

4.5 The current reserves position is summarised in the table below and shows the estimated balance at 31 March 2028 is now £83.8m. Of this £25.0m relates to available strategic reserves: this position represents the known planned use for these reserves and includes the planned draw from the financial management reserve in 2024/25 of £14.3m but does not assume reserves will be used to mitigate projected budget deficits in 2025/26 and beyond.

4.6 Total service and strategic reserves are projected to reduce to £41.7m by 2028. As a result of ongoing demand and inflationary pressures, and a lack of additional government funding, the cumulative deficit is projected to grow to £61.8m by 2026/27, which would exceed the level of reserves available to balance the budget:

**Table 3: Summary of Reserves**

	01.04.23 Actuals per Q2 Cabinet Report	Estimated Balance at 31.03.27 per Full Council Feb 23	Full Council February 2024 (£m)	
			01.04.24 Estimate	31.03.28 Estimate
<b>Earmarked Reserves:</b>				
<b>Held on behalf of others or statutorily ringfenced</b>	<b>34.9</b>	<b>33.9</b>	<b>32.3</b>	<b>32.1</b>
<b>Named Service Reserves</b>				
Waste Reserve	19.9	7.5	19.4	8.9
Capital Programme Reserve	13.4	0.3	9.4	0.5
Insurance Reserve	7.4	7.1	7.5	7.3
Adult Social Care Reform Reserve	3.1	0.0	3.1	0.0
<b>Subtotal named service reserves</b>	<b>43.8</b>	<b>14.9</b>	<b>39.4</b>	<b>16.7</b>
<b>Strategic Reserves</b>				
Priority Outcomes and Transformation	17.4	2.1	5.9	5.6
Financial Management	41.9	22.5	31.8	19.4
<b>Subtotal strategic reserves</b>	<b>59.3</b>	<b>24.6</b>	<b>37.7</b>	<b>25.0</b>
<b>Total Earmarked Reserves</b>	<b>138.0</b>	<b>73.4</b>	<b>109.4</b>	<b>73.8</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>148.0</b>	<b>83.4</b>	<b>119.4</b>	<b>83.8</b>

4.7 At 1 April 2024 the estimated Earmarked Reserves are as follows:

4.8 **Held on behalf of others or statutorily ringfenced** amount to £32.3m – most significantly this comprises £20.1m schools’ balances which cannot legally be spent on ESCC activities, and ringfenced Public Health Reserve of £6.1m.

4.9 **Named Service Reserves** that are set aside to manage a specific financial risk, amount to £39.4m and comprise of a:

- 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 2024/25 and beyond.
- Adult Social Care Reform Reserve – this reserve has been set up to support the financial risk of proposed social care reforms, now delayed until 2025.

4.10 **Strategic reserves** are as follows:

- 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.
- 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

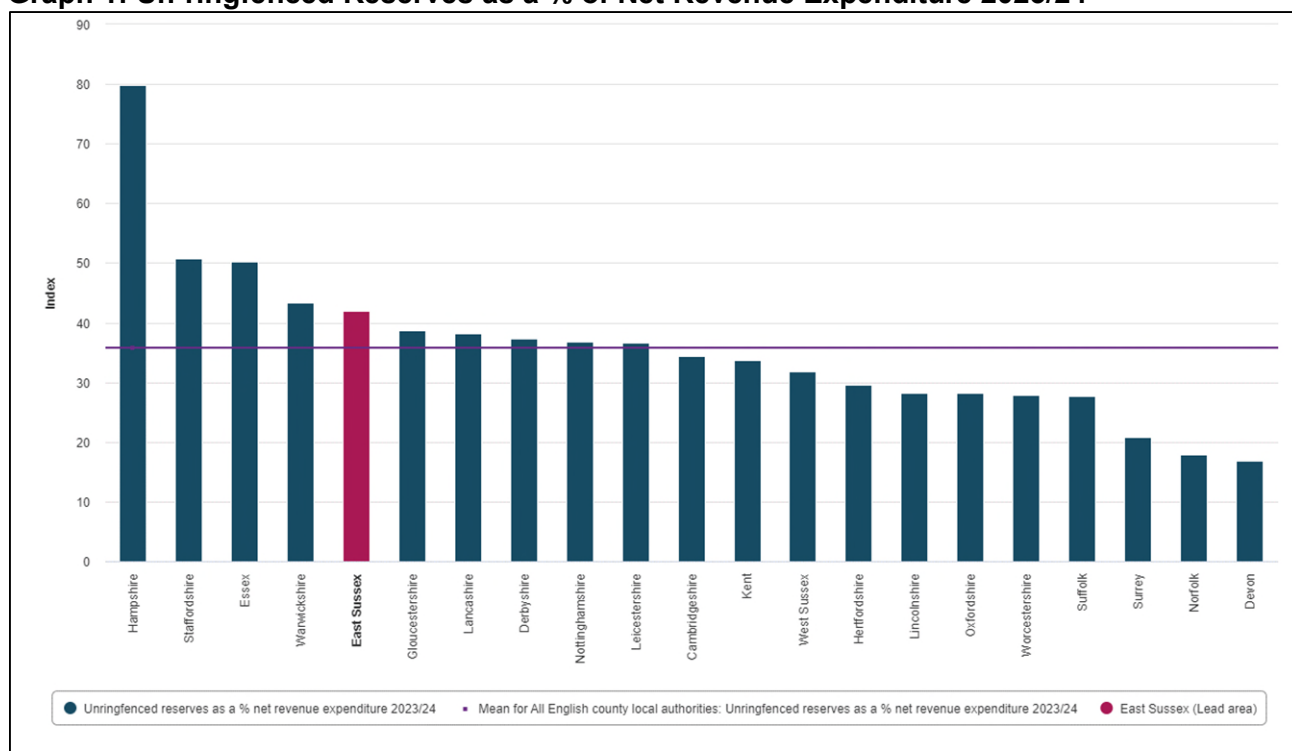
(CFO) robustness statement, including the risk of the pay award being over that planned within the Medium Term Financial Plan (MTFP). It also enables wider management of the medium-term financial strategy and the investment strategy.

4.11 It is essential that we maintain sufficient reserves to weather ongoing financial uncertainty and the risk associated with reform of the system. 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. However, the worsening financial position in 2023/24, and the absence of a long-term funding settlement has made this approach increasingly difficult.

## 5.0 Benchmarking data

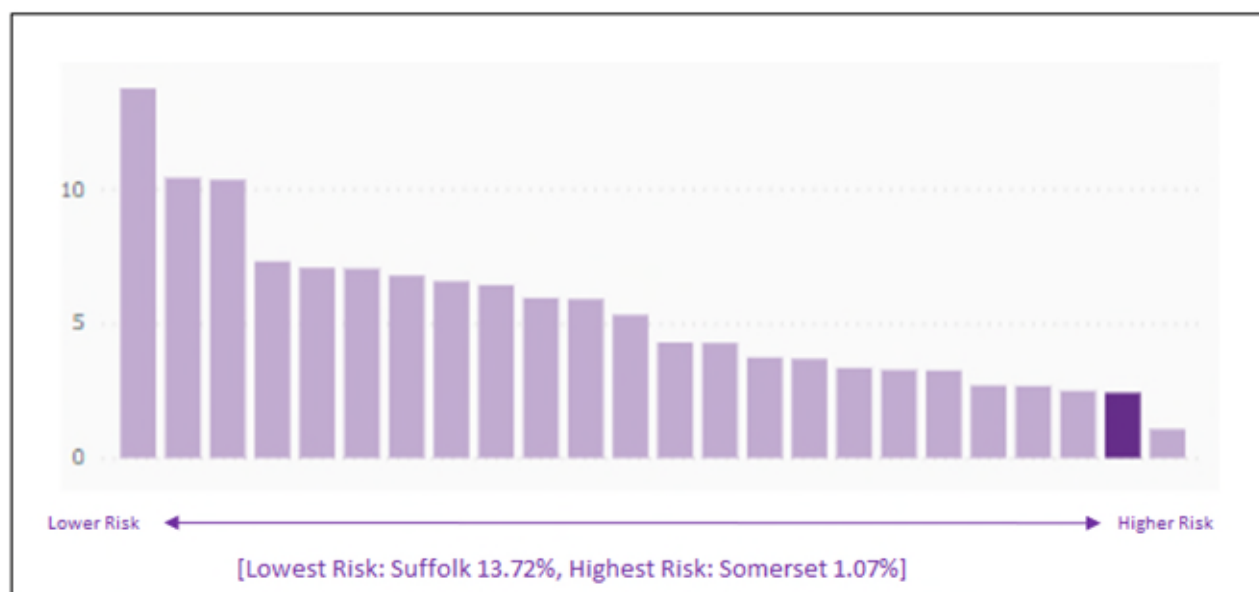
5.1 Graph 1 below shows the LGA’s analysis of un-ringfenced reserves as a % of net revenue expenditure in 2023/24. The Council is placed 5<sup>th</sup> out of the 21 counties with available data, with reserves at 42% of net revenue expenditure.

**Graph 1: Un-ringfenced Reserves as a % of Net Revenue Expenditure 2023/24**



5.2 The CIPFA Resilience Index provides an indicator of the robustness and reasonableness of levels of reserves. The graph below provided by CIPFA as part of this index in December 2023 looks at the current level of unallocated reserve (General Fund) as a percentage of net revenue expenditure (NRE).

**Graph 2: Unallocated Reserve as a % of Net Revenue Budget 2022/23**



5.3 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.

5.4 Despite holding the second lowest percentage of General Fund compared to other county councils at 2.42%, it is still considered sufficient as, in addition, the Council holds a general contingency within the base revenue budget to cushion the impact of unexpected events and emergencies in year. This contingency is set at 1% of NRE less Treasury Management, which was £4.3m for 2022/23. If this contingency was included, the percentage for ESCC would increase to 3.16% which would put the Council at 6<sup>th</sup> lowest in the graph above.

The table below shows the estimated General Fund plus General Contingency as a % of Net Revenue Expenditure for the next three years:

**Table 4: GF + GC as % of NRE**

Estimated Budget (£m)	2024/25	2025/26	2026/27
General Fund (GF)	10.000	10.000	10.000
General Contingency (GC)	5.270	5.310	5.430
<b>Total GF + GC</b>	<b>15.270</b>	<b>15.310</b>	<b>15.430</b>
<b>Net Revenue Expenditure (NRE)</b>	<b>552.446</b>	<b>591.853</b>	<b>623.500</b>
<b>GF + GC as a % of NRE</b>	<b>2.76%</b>	<b>2.59%</b>	<b>2.47%</b>

5.5 The challenge is to maintain an appropriate level of reserves, whilst also mitigating the pressures faced within the MTFP.

**Table 7: Financial Assessment of 2024/25 Risks**

Risk	Potential magnitude	Estimate of potential impact	Magnitude
			£m
Growing demand for services in ASC Independent Sector.	ASC IS 2024/25 net budget £183.7m	5% increased demand over that already invested	9.2
Growing demand for services, particularly CSD LAC and Home to School Transport.	CSD LAC & HTST net budgets for 2024/25 £92.1m	10% increased demand over that already invested	9.2
Inflation on pay is more than the contingency of 3% due to pressure from unions and political commitment.	Each 0.5% increase is approx. £1m	0.5% additional increase	1.0
National and international trade and supply chain issues causing excess inflation.	Inflation provided in MTFP £28.4m	5% increase in current provision.	1.4
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 2024/25 is £78.1m.	Underachievement of 5%	3.9
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.	Rates collected reduces by 1%	4.8
Changes in historic weather patterns may be being the potential for adverse weather conditions which may present the Council with additional unfunded costs. The impact of weather and other events as opposed to additional prevention cannot be quantified.	Historic winter maintenance spend is circa £1.1m.	10% increase in costs due to adverse weather	0.1
	Pressures due to unknown event impacts e.g. floods, fire	1% of insurance reserve	0.1

5.6 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 for 2024/25 on the basis that a balance of the strategic reserves remains available, as noted at 5.5, an in-year contingency is held.

5.7 The MTFP provides an estimated position for the next three years, shown at Table 8.

**Table 8: Medium Term Financial Plan Position**

	2024/25	2025/26	2026/27
Estimated Annual Deficit / (Surplus)	0.0m	45.3m	16.5m
Estimated Annual Deficit / (Surplus) – cumulative	0.0m	45.3m	61.8m

5.8 We are using significant reserves to balance the budget for 2024/25, which will constrain the council's ability to use reserves to manage future financial risk.

5.9 Work will continue to identify risks and pressures. In addition, the effects of several 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:

- General Election during 2024/25
- Adult Social Care reform and potential new burdens.
- The impact of the levelling up agenda.
- The Fair Funding Review consultation and outcome; this will be the basis of the new needs assessment upon which business rates will be redistributed.
- The future funding of social care.
- Impact of new Government policies.
- Potential taxation reform; and
- Environmental targets, including the impact of Climate Emergency.

5.10 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.



## **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.