

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 2025/26 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, **the Council continues to face enduring financial challenges**. In presenting a balanced budget for 2025/26, I must advise that **£11.4m of service specific reserves have been used on top of the £13.5m of new savings, which impact on all departments**. Moreover, in setting a balanced budget for 2024/25, the Council undertook a planned draw of £14.3m from reserves, and a further estimated draw of £10.5m will be required to cover the projected overspend in 2024/25. The impact of the planned draws in 2024/25 and 2025/26 is to reduce useable reserves to levels whereby managing any emergent pressures in 2025/26 will challenge financial sustainability.

- 3.2 While the additional funding in the Provisional Local Government Finance Settlement is welcome, it is not sufficient to address the ongoing impact of increased service demands and high levels of inflation in prior years, together with the impact of increases in the National Living Wage (NLW) and increases in employers' national insurance contributions (NICs) on our providers, especially in social care. Whilst it is welcome to note the government's commitment to a fair funding review, business rates reform and multiyear settlements from 2026/27, unless the Council receives a significant and permanent increase in funding, the deficit, which is currently projected to be £37.4m in 2026/27 will continue to prove difficult to mitigate locally, and require an approach to the Ministry for Housing Communities and Local Government (MHCLG) for Exceptional Financial Support.
- 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 2025/26, strategic reserves are projected to reduce to £6.2m by 2029, after taking into account the draws for 2024/25. This leaves very limited flexibility should further pressure arise in 2025/26, and 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; demographic 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 subject to a risk review undertaken during 2024/25 aimed at minimising the level of borrowing required to fund the future programme, reducing pressure on the Medium-Term Financial Plan by an estimated £3.9m over the period to 2027/28.
- 3.5 In light of a substantial projected deficit forecast, Cabinet requested in June that officers explore areas of search for savings covering: discretionary and non-statutory preventative services; directly provided services; support services and back-office functions; and income generation. Departments have undertaken work to identify how savings could be delivered, guided by these areas of search and are assumed to be deliverable in presenting this budget.
- 3.6 As the development of the Council Plan and budget for 2025/26 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.
- 3.7 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 2024/25 budget, which is significantly overspending. There are pressures on budgets from demand for social care placements and the ongoing impacts of inflation, which, following the Autumn Budget, the OBR now predicts will be higher than previously forecast, and the announcement of NLW and NIC increases impacting the social care provider market. There is also a risk that the Government funding available for the direct impact of employer's NIC increases on ESCC does not cover the cost. 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.
- 3.8 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% council tax increase (before triggering referendum) will support and help protect services that are already under significant pressure.

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 £82.3m as of 1 April 2025: a decrease of £41.9m against the actual reserves at 1 April 2024 totalling £124.2m.

Movements in year include:

- Priority Outcomes and Transformation (POT) – a net decrease of £4.3m, movements in 2024/25 shown in Table 2 below.

Table 2: Movements in POT Reserve 1 April 2024 to 1 April 2025

Description	Movement
County Hall project	(£1.8m)
Oracle implementation	(£0.6m)
Highways project	(£0.5m)
Various other movements not exceeding £0.5m individually (net)	(£1.4m)
Total Movement	(£4.3m)

- Financial Management (FM) – A net decrease of £29.4m, movements in 2024/25 are shown in Table 1 below.

Table 1: Movements in FM Reserve 1 April 2024 to 1 April 2025

Description	Movement
One-off use to balance budget	(£14.3m)
Q2 forecast draw to balance budget	(£10.5m)
2023/24 pay award provision	(£1.6m)
Connected Families project	(£0.8m)
Oracle implementation	(£0.7m)
Non-independent sector contract uplift 2024/25	(£0.6m)
Various other movements not exceeding £0.5m individually (net)	(£0.9m)
Total Movement	(£29.4m)

- 4.5 The current reserves position is summarised in the table below and shows the estimated balance at 31 March 2029 is now £51.3m. Of this £6.2m relates to available strategic reserves.
- 4.6 Total service and strategic reserves are projected to reduce to £18.8m by 2029, which takes account of the combined £11.4m draw from the Waste and Insurance Reserves to present a balanced budget for 2025/26. As a result of ongoing demand and inflationary pressures, and a lack of additional government funding, the cumulative deficit is projected to grow to £56.1m by 2027/28, which would significantly exceed the level of reserves available to balance the budget:

Table 3: Summary of Reserves

Reserves Balance (£m)	Balance at 1 Apr 2024	Estimated balance at 1 Apr 2025	Estimated balance at 1 Apr 2029
	£m	£m	£m
Earmarked Reserves:			
Held on behalf of others or statutorily ringfenced	31.3	26.1	22.5
Named Service Reserves			
Waste Reserve	19.5	19.3	7.4
Capital Programme Reserve	9.9	9.5	0.0
Insurance Reserve	7.4	7.4	5.2
Adult Social Care Reform Reserve	3.0	0.6	0.0
Subtotal named service reserves	39.8	36.8	12.6
Strategic Reserves			
Priority Outcomes and Transformation	7.3	3.0	1.9
Financial Management	35.8	6.4	4.3
Subtotal strategic reserves	43.1	9.4	6.2
Total Earmarked Reserves	114.2	72.3	41.3
General Fund Balance	10.0	10.0	10.0
TOTAL RESERVES	124.2	82.3	51.3

- 4.7 At 1 April 2025 the estimated Earmarked Reserves are as follows:
- 4.8 **Held on behalf of others or statutorily ringfenced** amount to £26.1m – most significantly this comprises £18.2m schools' balances which cannot legally be spent on ESCC activities, and ringfenced Public Health Reserve of £2.7m.
- 4.9 **Named Service Reserves** that are set aside to manage a specific financial risk, amount to £36.8m 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 recyclate 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. The Waste Reserve will be credited with ESCC's £4.8m allocation of the extended producer responsibility for packaging (EPR) funding in 2025/26.
 - 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 2024 and other local knowledge and represents estimates that may become payable in 2025/26 and beyond.

- Adult Social Care Reform Reserve – this reserve had initially been set up to support the financial risk of social care reforms proposed by the previous government. These reforms have now been superseded by the establishment of an independent Commission to transform care.

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

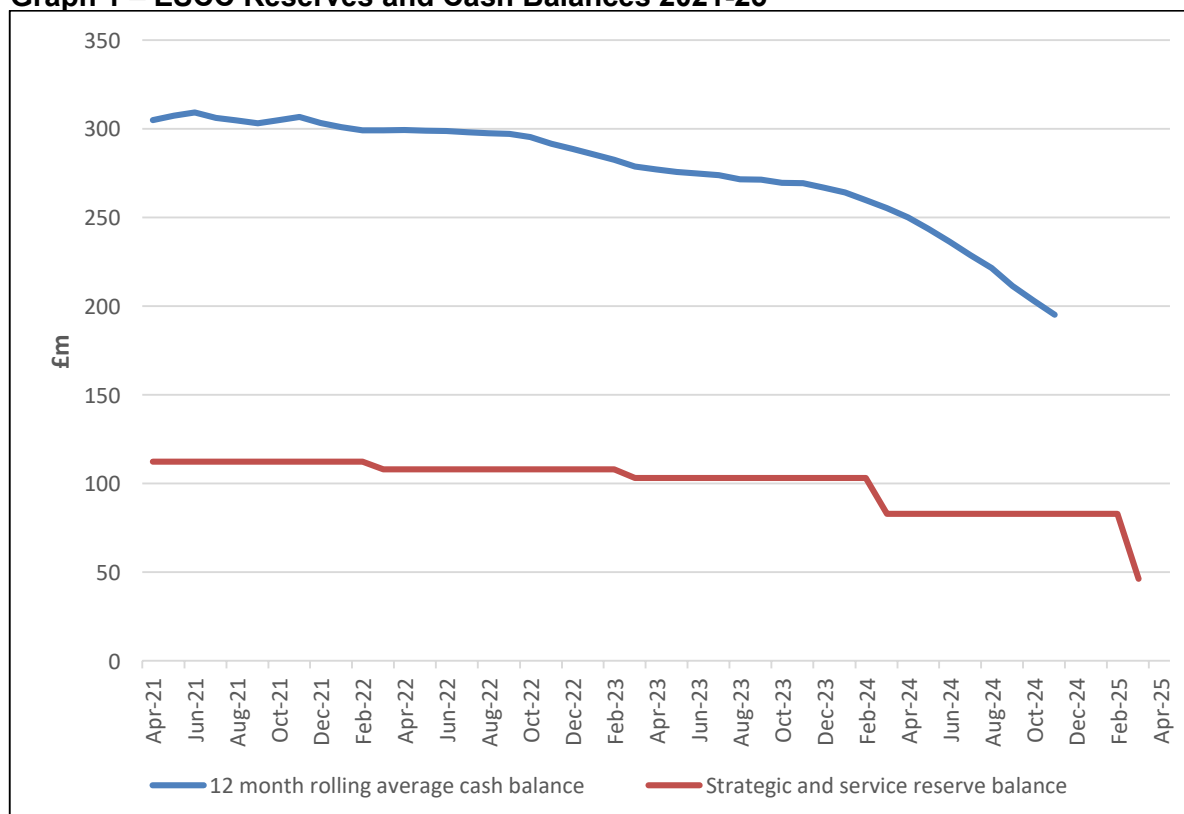
4.11 It is essential that we maintain sufficient reserves to weather ongoing financial uncertainty and the risk associated with reform of the system. It therefore continues to be a priority to, where possible, bolster the Financial Management reserve and the Priority Outcomes and Transformation reserve where the opportunity presents. However, the worsening financial position since 2023/24, and the absence of a long-term funding settlement has made this approach increasingly difficult.

4.12 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.

5.0 **Benchmarking and Performance Data**

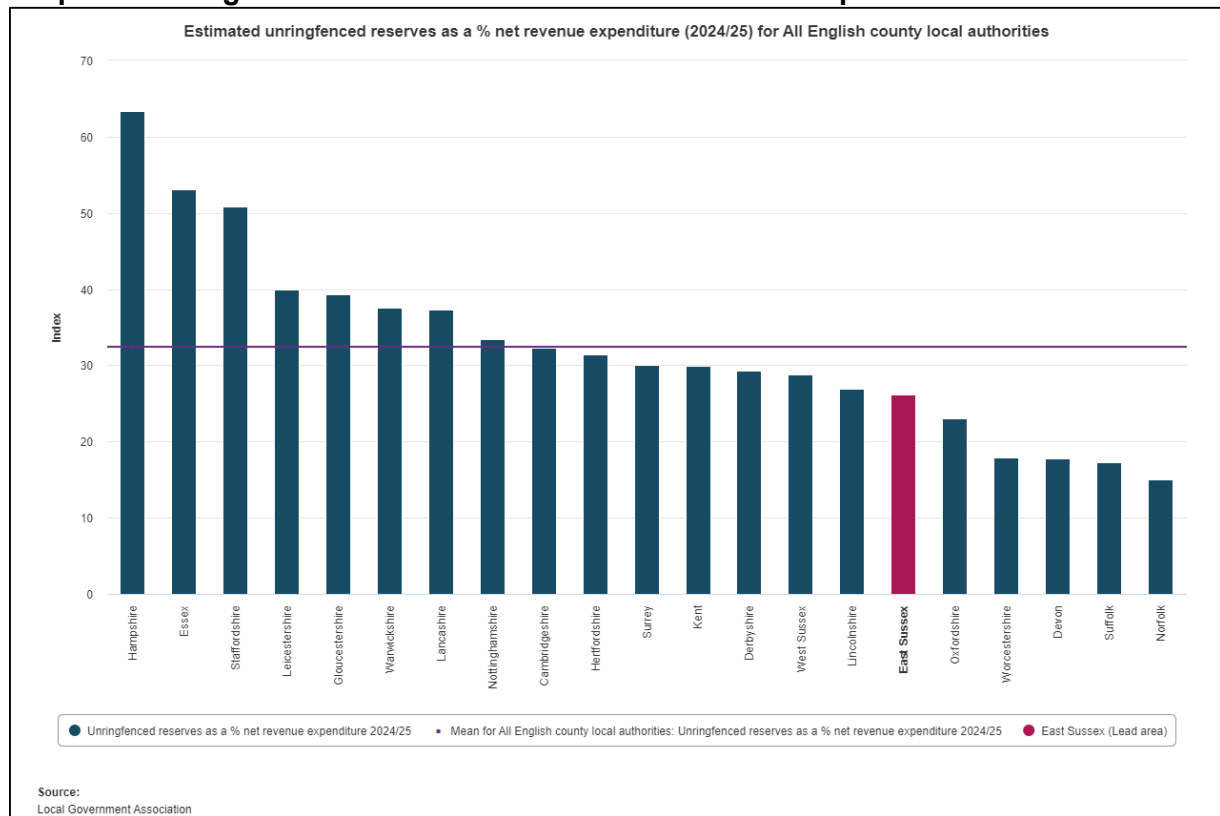
5.1 Recent years have seen a sharp reduction in the council's reserve and cash and short term investment balances. The graph below sets out the 12-month rolling average cash balances and total service and strategic reserves since April 2021. Reserves as at 1 April 2025 are estimated:

Graph 1 – ESCC Reserves and Cash Balances 2021-25



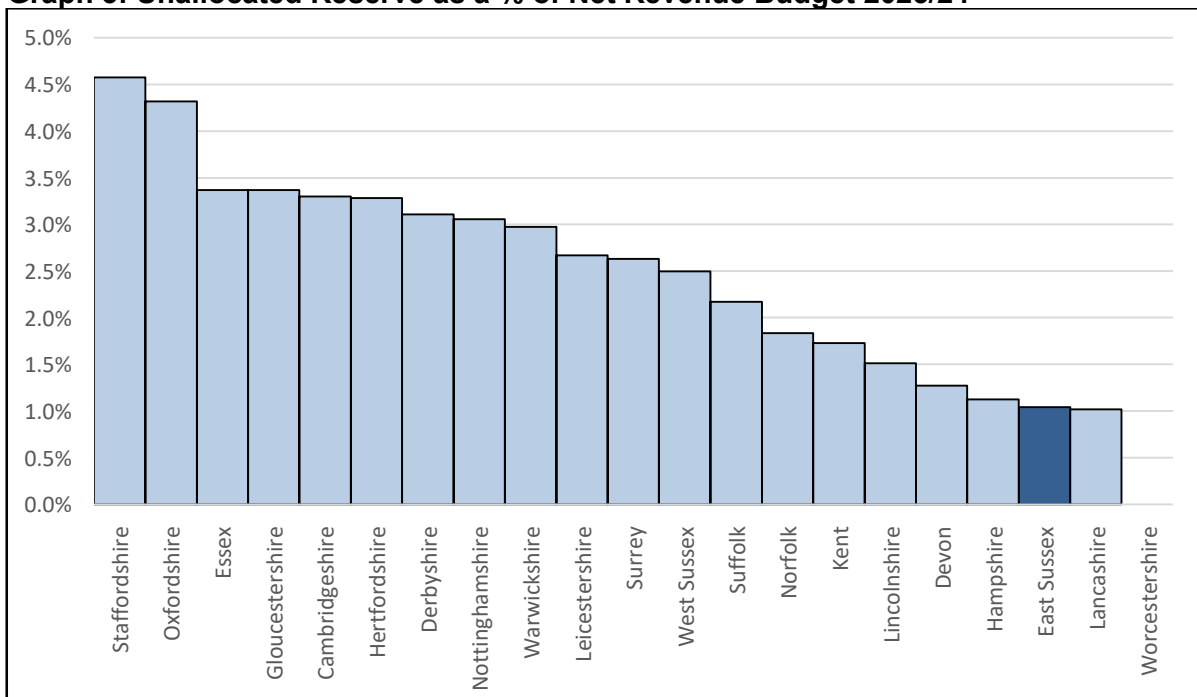
- 5.2 Graph 2 below shows the LGA's analysis of un-ringfenced reserves as a % of net revenue expenditure in 2024/25. The Council is placed 16th (5th in 2023/24) out of the 21 counties with available data, with reserves at 26% (42% in 2023/24) of net revenue expenditure.

Graph 2: Un-ringfenced Reserves as a % of Net Revenue Expenditure 2024/25



- 5.3 The CIPFA Resilience Index usually provides an indicator of the robustness and reasonableness of levels of reserves, and looks at the current level of unallocated reserve (General Fund) as a percentage of net revenue expenditure (NRE). The Index is not yet available for publishing, so published Revenue Outturn (RO) data for 2023/24 has been used to produce the graph below.

Graph 3: Unallocated Reserve as a % of Net Revenue Budget 2023/24



- 5.4 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.
- 5.5 Despite holding the third lowest percentage of General Fund compared to other county councils at 1.04%, 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 £5.3m for 2023/24. If this contingency was included, the percentage for ESCC would increase to 1.59% which would put the Council at 7th 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)	2025/26	2026/27	2027/28
General Fund (GF)	10.000	10.000	10.000
General Contingency (GC)	5.650	5.680	5.830
Total GF + GC	15.650	15.680	15.830
Net Revenue Expenditure (NRE)	591.064	623.461	657.777
GF + GC as a % of NRE	2.65%	2.51%	2.41%

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

Table 7: Financial Assessment of 2025/26 Risks

Risk	Potential magnitude	Estimate of potential impact	Magnitude
Growing demand for services in ASC Independent Sector.	ASC IS 2025/26 net budget £208.8m	5% increased demand over that already invested	£10.4m
Growing demand for services, particularly CSD LAC and Home to School Transport.	CSD LAC & HTST net budgets for 2025/26 £101.5m	10% increased demand over that already invested	£10.2m
Trajectory of growing SEND deficit is under-estimated	Borrowing Costs	Borrowing costs to fund SEND deficit higher than budgeted	£1.0m
Inflation on pay is more than the contingency of 2.5% due to pressure from unions and political commitment.	Each 0.5% increase is approx. £1.1m	0.5% additional increase	£1.1m
Inflation and interest rates higher than forecast, suppliers passing on cost of NIC and NLW increases	Inflation provided in MTFP £19.4m	5% increase in current provision.	£1.0m
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 2025/26 is £90.4m.	Underachievement of 5%	£4.5m
Promised government funding not sufficient to cover increases in National Insurance cost	Employee Costs Overspend	Estimated potential gap	£0.8m
Enduring impact of the rise in the cost of living on Business Rates and Council Tax collection rates.	Reduction in anticipated revenue from Business Rates and Council Tax.	Rates collected reduces by 1%	£5.0m
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	£0.1m
	Pressures due to unknown event impacts e.g. floods, fire	1% of insurance reserve at 1 April 2025	£0.1m
Challenge to achieve current savings targets given that the Council had already delivered £140m savings since 2010	Savings target for 2025/26 £13.5m	Underachievement of 5%	£0.7m

- 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 2025/26 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

	2025/26	2026/27	2027/28
Estimated Annual Deficit / (Surplus)	£0.0m	£37.4m	£18.7m
Estimated Annual Deficit / (Surplus) – cumulative	£0.0m	£37.4m	£56.1m

5.8 We have used significant reserves to balance the budget in both 2024/25 and 2025/26, 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:

- Service performance and consultation, including:
 - Fair Funding
 - Business Rates reform
 - Children's Social Care
- The impact of the new government's revised distribution methodology, including targeted based on need aligned to deprivation
- The future funding of social care.
- Impact of new Government policies.
- Environmental targets, including the impact of Climate Emergency; and
- Geopolitical uncertainty leading to international trade issues, inflation and higher borrowing costs

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.