

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 Statement of the Chief Finance Officer

- 3.1 The Council faces a **financial gap of £55.6m for 2026/27**. In previous years, balanced budgets were achieved through significant planned draws from reserves: £14.3m in 2024/25, and £11.4m in 2025/26 alongside the delivery of savings of £13.5m and efficiency measures. Combined with significant in-year overspends, this

approach has now exhausted strategic reserves to a level that leaves minimal flexibility to manage unforeseen pressures.

- 3.2 The remaining reserves are now at a level I consider to be an absolute minimum level required to safeguard the Council against unforeseen risks and volatility. Any further draw on reserves to support the revenue budget would compromise my statutory responsibility as set out in 1.2 of this statement and leave the Council exposed to an unacceptable level of financial risk. Consequently, no additional use of reserves can be recommended to bridge the budget gap for 2026/27.
- 3.3 The **Fair Funding Review 2.0** (FFR2.0) introduces a redistribution of grant funding based on deprivation and council tax capacity, which benefits some authorities but leaves others, particularly counties and rural councils, highly dependent on local taxation. The outcome of **FFR2.0** was not favourable for this authority. The introduction of council tax equalisation, changes to the formula for distributing funding for adult social care, and the use of national indicators for labour costs that do not correlate with the wages required to recruit and retain social care staff, all combined to significantly reduce the levels of grant funding over the settlement period.
- 3.4 The provisional **Local Government Finance Settlement** published on 17 December 2025 confirmed the assumptions in our initial modelling of FFR2.0. As anticipated, the changes to formulae have significantly reduced the Council's share of settlement funding, now known as the Fair Funding Assessment (FFA), which will reduce by £12.6m over the settlement period. As a result, the Council's non-Council Tax Core Spending Power will reduce by 5.8% by 2028/29. The change in grant funding from 2025/26 to 2026/27 is cash neutral, but with inflation currently between 3% to 4%, represents a significant reduction in real terms.
- 3.5 The Council is now in a position where **reserves are no longer sufficient** to close the financial gap and set a balanced budget for 2026/27 and beyond. Previous years relied heavily on planned draws from reserves to balance the budget and mitigate in year overspends, but this approach is no longer viable. Strategic reserves have been depleted to levels that provide minimal flexibility to manage unforeseen pressures, and the Council cannot continue to rely on one-off solutions.
- 3.6 In presenting the 2026/27 budget, it has been necessary to assume that **Exceptional Financial Support (EFS)** will be granted by the Ministry for Housing, Communities and Local Government (MHCLG). EFS would enable the Council to borrow to fund revenue expenditure, allowing a legally balanced budget to be set. This will take the form of a capitalisation directive enabling the council to capitalise the deficit, funded via borrowing. If MHCLG do not grant the capitalisation request the Council will not be able to balance the 2026/27 budget and I will have no option but to use my statutory powers and issue a section 114 notice in the absence of further measures.
- 3.7 EFS is not “free money.” Borrowing for revenue creates future liabilities and interest costs, increasing pressure on the Medium-Term Financial Plan (MTFP). While EFS provides short-term relief, it fundamentally undermines long-term sustainability. Borrowing for revenue does not address the structural gap between recurring income and expenditure, meaning the underlying deficit persists and the amount of accrued debt grows each year. In addition, continued reliance on EFS risks breaching

prudential borrowing limits and could trigger external intervention. Without systemic reform or additional funding, this approach will lead to escalating debt and reduced financial resilience.

3.8 In line with CIPFA guidance and the Prudential Code, the Council will present (as part of the treasury and capital strategies) updated prudential indicators that:

- assess the incremental impact on the revenue budget of any capitalisation-related borrowing, including both interest and the Minimum Revenue Position (MRP) showing affordability over the life of the MTFP;
- ensure that all decisions remain governed by the Prudential Code and capital and borrowing plans are affordable, prudent and sustainable; and
- continue to monitor the Council's capacity to borrow at different levels interest rates, inflation, and timing of capital expenditure.

3.9 The key assumptions underpinning the 2026/27 budget include:

- **A 4.99% increase in Council Tax**, in line with Spending Review expectations and referendum limits.
- Robust and up to date modelling of cost pressures (particularly in social care).
- Delivery of **further savings** on top of those achieved in previous years, despite the cumulative challenge of over a decade of reductions.
- Continued implementation of **spending control measures** across all services to help manage within departmental limits.

Despite these measures, the scale of the deficit means local action alone cannot restore sustainability.

3.10 The budget has been set using the best available estimates of demand pressures, inflation, and risk. It has been subject to review by Chief Officers, other Officers, Members, Cabinet, and Scrutiny Committees to ensure alignment with statutory obligations and corporate priorities.

3.11 In summary, while the proposed budget for 2026/27 is legally balanced, it is neither robust nor sustainable in the medium term. It depends on exceptional measures that cannot be repeated indefinitely. The Council will continue to engage with government directly and via our networks to seek clarity on future funding arrangements and advocate for reforms that address the structural challenges facing local authorities.

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 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 The current reserves position is summarised in the table below and shows the estimated balance at 31 March 2030 is now £46.0m. Of this £5.2m relates to available strategic reserves.

Reserves Balance (£m)	Balance at 1 Apr 2025 £m	Estimated balance at 1 Apr 2026 £m	Estimated balance at 1 Apr 2030 £m
Earmarked Reserves:			
Held on behalf of others or statutorily ringfenced	25.5	21.2	19.9
Named Service Reserves			
Waste Reserve	19.8	14.7	7.4
Capital Programme Reserve	9.1	-	-
Insurance Reserve	7.7	3.7	3.5
Subtotal named service reserves	36.6	18.4	10.9
Strategic Reserves			
Priority Outcomes and Transformation	5.2	4.4	1.9
Financial Management	11.3	6.1	3.3
Subtotal strategic reserves	16.5	10.5	5.2
Total Earmarked Reserves	78.6	50.1	36.0
General Fund Balance	10.0	10.0	10.0
TOTAL RESERVES	88.6	60.1	46.0

4.5 ESCC General Fund Balance and Earmarked Reserves are projected to total £60.1m as of 1 April 2026: a decrease of £28.5m against the actual reserves at 1 April 2025 totalling £88.6m. The table below sets out the estimated movements of earmarked reserves in-year:

Earmarked Reserves	Estimated Movements 2025/26 £m	Key Movements
Held on behalf of others or statutorily ringfenced	(4.3)	(£2.9m) public health (£1.0m) car parking (£0.4m) various movements not exceeding £0.5m individually (net)
Waste Reserve	(5.1)	Planned draw to balance budget during budget setting
Capital Programme Reserve	(9.1)	(£4.6m) planned capital projects and reducing borrowing costs (£4.5m) unplanned draw to balance forecast at Q2
Insurance Reserve	(4.0)	(£2.0m) planned draw to balance budget during budget setting (£2.0m) unplanned draw to balance forecast at Q2
Priority Outcomes and Transformation	(0.8)	Various movements not exceeding £0.5m individually (net)
Financial Management	(5.2)	(£4.2m) transfer to Local Government Reorganisation service reserve; then used to balance budget at Q2 (£0.7m) balance of 2023/24 pay award provision, used for 2024/25 pay award (£0.3m) various other movements (net)
Total Estimated Movements	(28.5)	

4.6 Total service and strategic reserves are projected to reduce to £16.1m by 2030. As a result of ongoing demand and inflationary pressures, and a lack of additional government funding, the cumulative deficit is projected to grow to £111.1m by 2028/29, which would significantly exceed the level of reserves available to balance the budget.

4.7 At 1 April 2026 the estimated Earmarked Reserves are as follows:

4.8 **Held on behalf of others or statutorily ringfenced** amount to £21.2m – most significantly this comprises £16.0m schools' balances which cannot legally be spent on ESCC activities, and ringfenced Public Health Reserve of £1.1m.

4.9 **Named Service Reserves** that are set aside to manage a specific financial risk, amount to £18.4m 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 recyclate prices increasing disposal costs, 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. Noting that the estimated balance at 1 April 2026 will be zero.
- Insurance Reserve – this is to fund insurance liabilities that have arisen over previous years, based on the liability estimated by the Actuary and other local

knowledge and represents estimates that may become payable in 2025/26 and beyond.

4.10 **Strategic reserves** are as follows:

- The Priority Outcomes and Transformation reserve – to fund transformation programmes to change, protect and improve Council services and 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 reforms 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 in 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.

4.13 **SEND Statutory Override**

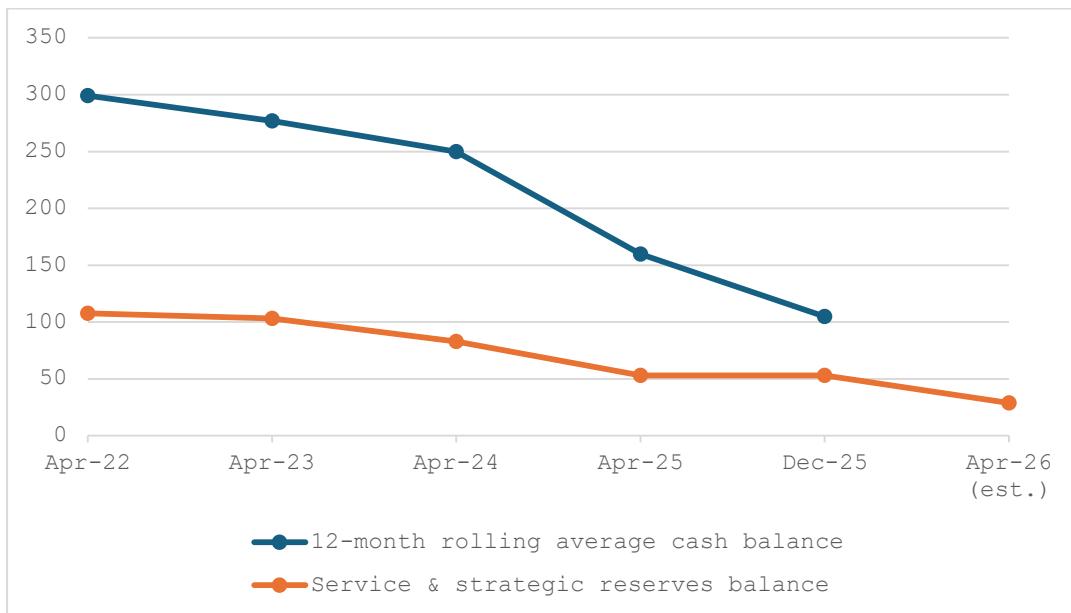
The Council holds a growing Dedicated Schools Grant (DSG) – High Needs deficit relating to SEND, which is currently kept off the Council's general fund balance sheet by a statutory accounting override. The government has extended this override to the end of 2027/28, which mitigates immediate technical risk of insolvency but does not resolve the underlying deficit or funding pressures.

4.14 The SEND deficit is forecast to be £20.1m on 1 April 2026, rising to £76.5m by 31 March 2028, when the statutory override is due to end. At that point, the Council will be required to recognise the full deficit on its balance sheet. This will have serious implications for the Council's financial position and borrowing requirement, as the deficit will need to be funded alongside existing pressures. Given the current level of reserves, if the statutory override were not in place during 2026/27, the council would have to increase any EFS request accordingly.

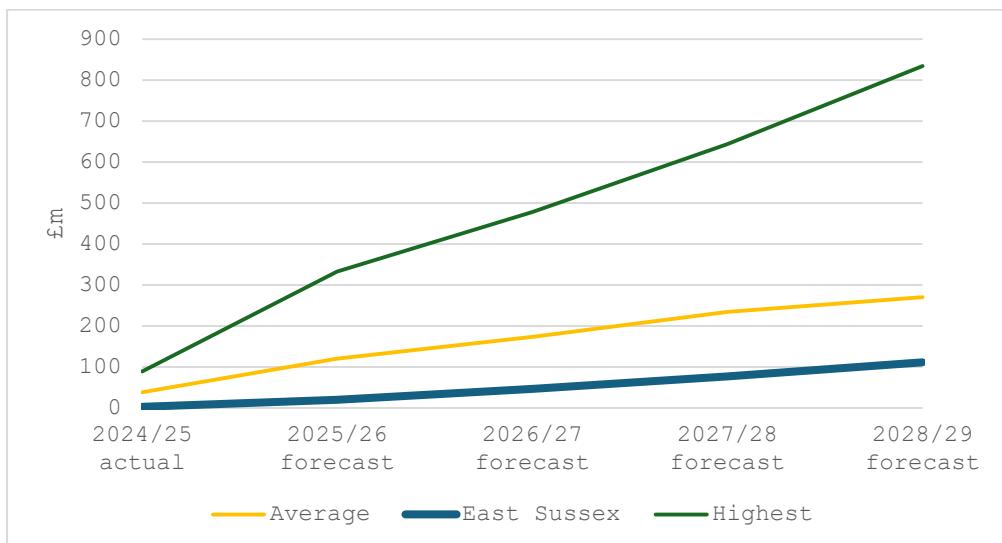
4.15 In forming my view on minimum balances, I have taken explicit account of the extended DSG statutory override to 2027/28 and the continuing national uncertainty around a permanent solution for historic SEND deficits.

5.0 Benchmarking and Performance Data

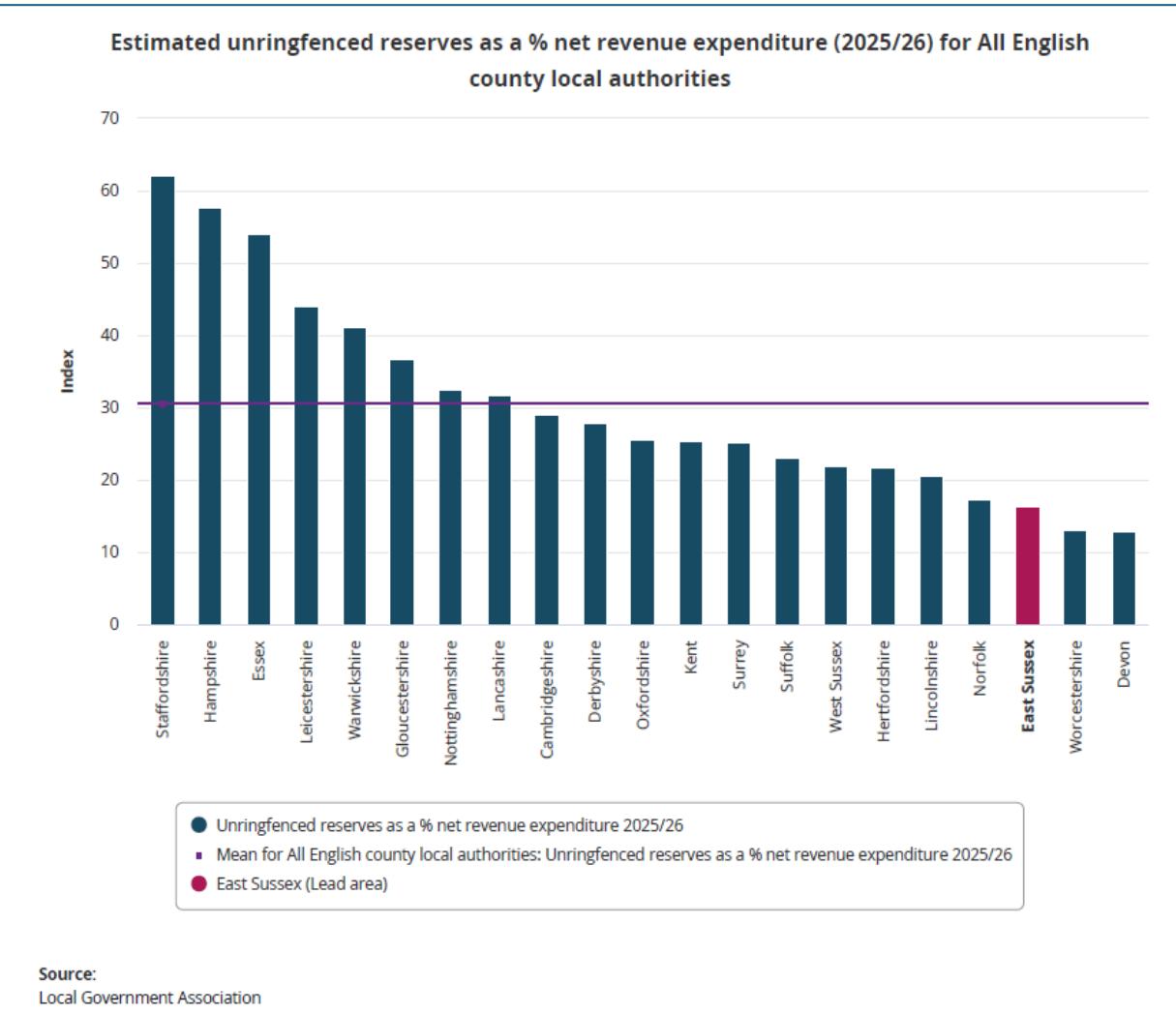
5.1 Recent years have seen a sharp reduction in the council's reserve and cash and short term investment balances. The graph below sets out the 12-month rolling average cash balances and total service and strategic reserves since April 2022.

Graph 1 – ESCC Reserves and Cash Balances 2022-26

5.2 As stated at 4.13, the Council holds a growing Dedicated Schools Grant (DSG) – High Needs (HNB) deficit relating to SEND, which is currently kept off the Council's general fund balance sheet by a statutory accounting override. Graph 2 below shows the Council's position compared to (anonymised) data from an informal group of 11 other Local Authorities with whom ESCC share information about Children's Services and Education. It has been announced that there will be no increase in the HNB allocation for 2026/27 which will place additional pressure on the overall deficit.

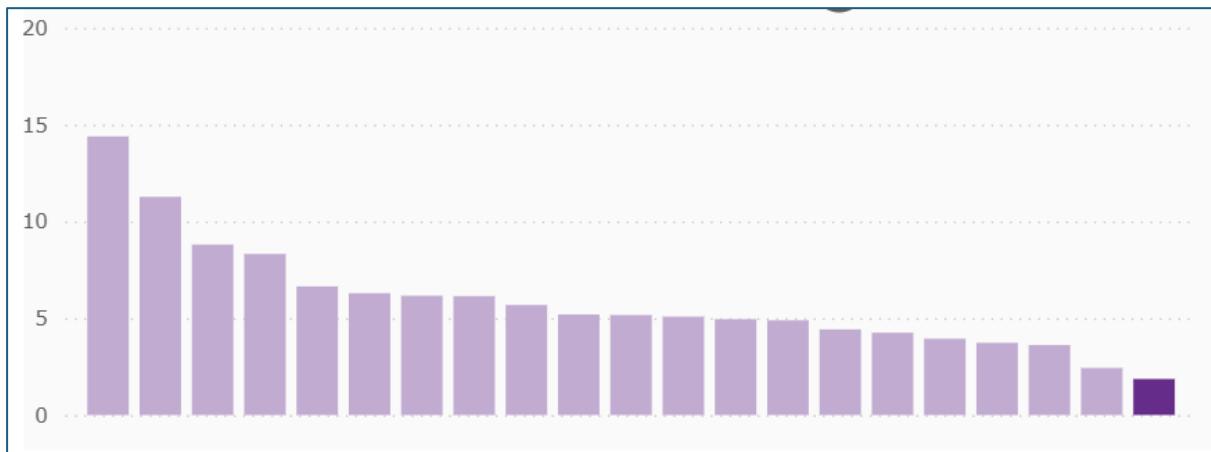
Graph 2 – DSG Forecast Deficits to 2028/29

5.3 Graph 3 below shows the LGA's analysis of un-ringfenced reserves as a % of net revenue expenditure in 2025/26. The Council is placed 19th (16th in 2024/25) out of the 21 counties with available data, with reserves at 16% (26% in 2024/25) of net revenue expenditure.

Graph 3: Un-ringfenced Reserves as a % of Net Revenue Expenditure 2024/25

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 The CIPFA Resilience Index provides a number of indicators of the robustness and reasonableness of levels of reserves; one indicator looks at the current level of unallocated reserve (General Fund) as a percentage of net revenue expenditure (NRE), using RO data from 2024/25. East Sussex is the lowest at 1.86%, the next lowest being 2.43% and the highest being 14.39%.

Graph 4: Unallocated Reserve as a % of Net Revenue Budget 2024/25

5.6 Despite holding the lowest percentage of General Fund compared to other county councils at 1.86%, 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.

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

Estimated Budget (£m)	2026/27	2027/28	2028/29
General Fund (GF)	10.000	10.000	10.000
General Contingency (GC)	6.700	7.000	7.600
Total GF + GC	16.700	17.000	17.600
Net Revenue Expenditure (NRE)	693.233	733.232	793.057
GF + GC as a % of NRE	2.41%	2.32%	2.22%

5.7 The table below shows the financial assessment of risks for 2026/27:

Risk	Potential magnitude	Estimate of potential impact	Magnitude
Growing demand for services in ASC Independent Sector.	ASC IS 2026/27 net budget £265.7m	5% increased demand over that already invested	£13.3m
Growing demand for services, particularly CSD LAC and Home to School Transport.	CSD LAC & HTST net budgets for 2026/27 £113.1m	10% increased demand over that already invested	£11.3m
Trajectory of growing SEND deficit is under-estimated	Borrowing Costs	Borrowing costs to fund SEND deficit 50% higher than budgeted	£0.5m
Inflation on pay is more than the contingency of 2.5%	Each 0.5% increase is approx. £1.1m	0.5% additional increase	£1.1m

due to pressure from unions and political commitment.			
Inflation and interest rates higher than forecast, suppliers passing on cost of NIC and NLW increases	Inflation provided in MTFP for 2026/27 is £19.5m	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 2026/27 is £103.6m.	Underachievement of 5%	£5.2m
Enduring impact of the rise in the cost of living on Council Tax collection rates.	Reduction in anticipated revenue from Council Tax.	Rates collected reduces by 1%	£4.2m
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. Pressures due to unknown event impacts e.g. floods, fire	10% increase in costs due to adverse weather 1% of insurance reserve balance estimated at 1 April 2026	£0.1m £0.04m
Challenge to achieve current savings targets given that the Council had already delivered £156m savings since 2010	Savings target (new and brought forward) for 2026/27 is £6.3m	Underachievement of 10%	£0.6m

5.8 There is also financial risk around the implementation of Local Government Reorganisation (LGR), which is currently unquantifiable. Whilst it is expected that LGR will deliver efficiencies over time, there is no additional funding identified, or reserves available, to meet up-front implementation costs within the MTFP set out this report.

5.9 Taking all relevant factors into account, including the scale and volatility of the risks identified in the table above, the depletion of strategic and earmarked reserves, the management of the projected growth in the cumulative budget deficit, and the Council's comparatively low level of unallocated reserves relative to other county councils, I consider that maintaining a General Fund Balance of £10.0m plus the

General Contingency budget of £6.7m represents the *absolute minimum* level required to support the safe and lawful operation of the Council in 2026/27.

5.10 The MTFP provides an estimated position for the next three years, summary shown below:

Medium Term Financial Plan	2026/27 £m	2027/28 £m	2028/29* £m
Council 11 February 2025 DEFICIT	25.916	18.731	0.000
Carry Forward of 2025/26 Deficit	11.449	-	-
Annual Budget Deficit after Carry Forward	37.365	18.731	0.000
Annual Budget Deficit after updates	55.631	18.542	36.893
Cumulative Budget Deficit after updates	55.631	74.173	111.066

*Notional due to LGR

5.11 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 transformation, for example, within Children's Social Care;
- SEND reform and impact on rising funding deficits;
- The future funding of social care;
- Adult Social Care fair pay agreement consultation;
- Impact of structural changes in local government through Local Government Reorganisation and Devolution;
- Environmental targets, including the impact of Climate Emergency; and
- Geopolitical uncertainty leading to international trade issues, inflation and higher borrowing costs.

5.12 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 and insurance risk.
- 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.