

## Reserves and Budget Robustness Statement

### 1.0 Reserves

- 1.1 The Council's approach to the management and accounting for earmarked reserves is set out in the Reserve Strategy adopted by the Cabinet in June 2017. 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.
- 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 hampered. Reserves can only be spent once and the possibility of creating new reserves in an era where budgets are tight and can become overspent, not just individually but corporately, is limited.
- 1.3 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.
- 1.4 ESCC General Fund Balance and Earmarked Reserves are estimated to total £102.3m as at 1 April 2020: a small estimated reduction of £0.5m against the actual reserves at 1 April 2019 totalling £102.8m. Movements in year are:
- A net decrease of £1.9m in reserves held on behalf of others or statutorily ringfenced;
  - Waste reserve – an increase of £1.8m due to a top up arising from contractual negotiations and one off backdated income;
  - Capital reserve – a £1.3m reduction is reflective of the use of reserve to fund items of investment for which the Council would not want to borrow and consistent with the new capital strategy;
  - Insurance reserve – the outcome of the annual actuarial review is awaited however due to some significant claims in 2019/20 an initial provision to top up the reserve in year by a net £0.6m has been made (£1.0m from the financial management less an estimated draw of £0.4m).
  - Financial Management – a net increase of £2.2m, movements shown in Table 1 below.

**Table 1: Movements in Financial Management Reserve 1 April 2019 to 1 April 2020**

Description	Movement
Contribution in 2019/20 from one-off grant, updated business rates & collection fund	£5.6m
Reduction in the planned draw for redundancies	£(1.1)m
Mitigation of slipped Early Help savings	£(1.0)m
Transfer to the Insurance Reserve, ahead of actuarial review	£(1.0)m
A number of small reductions in planned draws, including for the Music Service, Academy conversions, Waste & Minerals Sites Plan and Ropemaker.	£(0.3)m
<b>Total Movement</b>	<b>£2.2m</b>

- Priority Outcomes and Transformation – a net reduction of £1.9m, movements shown in Table 2 below.

**Table 2: Movements in Priority Outcomes and Transformation Reserve 1 April 2019 to 1 April 2020**

Description	Movement
Modern Records Paper Storage	£0.2m
Lansdowne Secure Children's Home Extension	£(0.4)m
Modernising Back Office Systems (MBOS) and Property Asset Management System (PAMS)	£(0.4)m
Orbis planned support (as approved 2015/16)	£(0.3)m
Accountable Care development & delivery	£(0.2)m
Mobile phone refresh	£(0.2)m
Early Help Transformation Project	£(0.1)m
Employability and Skills Strategy - Helping teenagers to move from school into employment	£(0.1)m
Reductions of less than £0.1m in a number of other projects/schemes	£(0.4)m
<b>Total Movement</b>	<b>£(1.9)m</b>

- 1.5 The estimated balance at 31 March 2024 is now £77.8m. Of this £26.6m relates to available strategic reserves: this position represents the known planned use for these reserves. The current reserves position is summarised in the table below.

**Table 3: Summary of Reserves**

	At State of the County July 2019		Full Council February 2020	
	01.04.19 Actual £m	Estimated Balance at 31.03.23 £m	01.04.20 Estimate £m	Estimated Balance at 31.03.24 £m
<b>Earmarked Reserves:</b>				
<b>Held on behalf of others or statutorily ringfenced</b>	<b>24.1</b>	<b>21.3</b>	<b>22.2</b>	<b>20.3</b>
<b>Named Service Reserves</b>				
Waste Reserve	12.8	8.6	14.6	9.7
Capital Programme Reserve	10.5	0.0	9.2	5.8
Insurance Reserve	4.8	4.8	5.4	5.4
<b>Subtotal named service reserves</b>	<b>28.1</b>	<b>13.4</b>	<b>29.2</b>	<b>20.9</b>
<b>Strategic Reserves</b>				
Financial Management	32.4	24.7	34.6	22.5
Priority Outcomes and Transformation	8.2	4.4	6.3	4.1
<b>Subtotal strategic reserves</b>	<b>40.6</b>	<b>29.1</b>	<b>40.9</b>	<b>26.6</b>
<b>Total Earmarked Reserves</b>	<b>92.8</b>	<b>63.8</b>	<b>92.3</b>	<b>67.8</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>102.8</b>	<b>73.8</b>	<b>102.3</b>	<b>77.8</b>

- 1.6 At 1 April 2020 the estimated Earmarked Reserves are as follows:-
- 1.7 **Held on behalf of others or statutorily ringfenced** amount to £22.2m – most significantly this comprises £13.7m schools balances which cannot legally be spent on ESCC activities, and ringfenced Public Health Reserve of £3.0m.
- 1.8 **Named Service Reserves** that are set aside to manage a specific financial risk, amount to £29.2m and comprise of a:-
- Waste Reserve – to manage financial risks relating to the waste contract. 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. The estimated balance at 31 March 2024 is now £5.8m; this now reflects a plan to draw on the reserve over the life of the capital programme in support of expenditure on the Economic Intervention Fund and House Adaptations.
  - Insurance Reserve – this is to fund insurance liabilities that have arisen over previous years, this represents the liability that the actuary estimates may become payable in 2020/21 and beyond.
- 1.9 **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 2.5% (each additional 0.5% costs approx. £0.7m). It also enables wider management of the medium-term financial strategy and investment strategy.
  - The Priority Outcomes and Transformation reserve – to fund the transformation programme to change, protect and improve Council services.
- 1.10 There has been a movement overall on the strategic reserves since they were last reported; The balance at 31<sup>st</sup> March 2023 of the strategic reserves was estimated to be £29.1m at State of the County and is now estimated at £26.6m at 31<sup>st</sup> March 2024. The key movements in these balances are as follows:
- Priority Outcomes and Transformation reserve – a net reduction of £0.3m due to EU Exit Funding being moved into its own specific reserve under ‘held on behalf of others or statutorily ring-fenced’.
  - Financial Management reserve – a net reduction of £2.2m, movements shown in Table 4 below.

**Table 4: Movements in Financial Management Reserve**

Description	Movement
Elections 2021/22: estimate based on May 2017 election costs uplifted for inflation.	£(0.9)m
Redundancy provision: update to estimated draw reflecting the core offer	£(0.3)m
Top-up the Insurance Reserve, awaiting the outcome of actuarial review	£(1.0)m
Estimated outturn position 2019/20 (subject to other Government announcements)	£0.0m
<b>Total Movement</b>	<b>£(2.2)m</b>

- 1.11 In the recent uncertain financial, economic and political times some councils have been close to collapse as they have grappled with the challenge of delivering services within a difficult financial landscape. That uncertainty is brought into sharp focus given the lack of clarity about what funding will be provided for councils beyond next year. The new Conservative Government's manifesto sets out a number of pledges, the financial impact of which is yet to be understood. It is essential that we maintain sufficient reserves to weather this period of uncertainty. It therefore continues to be a priority to, where possible, bolster the Financial Management reserve with any unused contingency once the final outturn position is known and other one-off funding.
- 1.12 Additionally it is proposed that, as in previous years, any changes to Business Rates and Collection Fund be managed through reserves. Details of the reserves summarised above can be found in the Budget Summary at Appendix 3. The Chief Finance Officer Statement on Budget Robustness follows.

## **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 Strategy 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 2020/21 budget proposal.**

3.1 It is the opinion of the CFO that the draft budget for 2020/21 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. The development of the Core Offer, although not specifically about setting a balanced budget, has enabled the Council to engage nationally and locally with Government Ministers, MPs and local partners and stakeholders to set out what level of services the residents of East Sussex should expect from a well-run, financially sound authority.

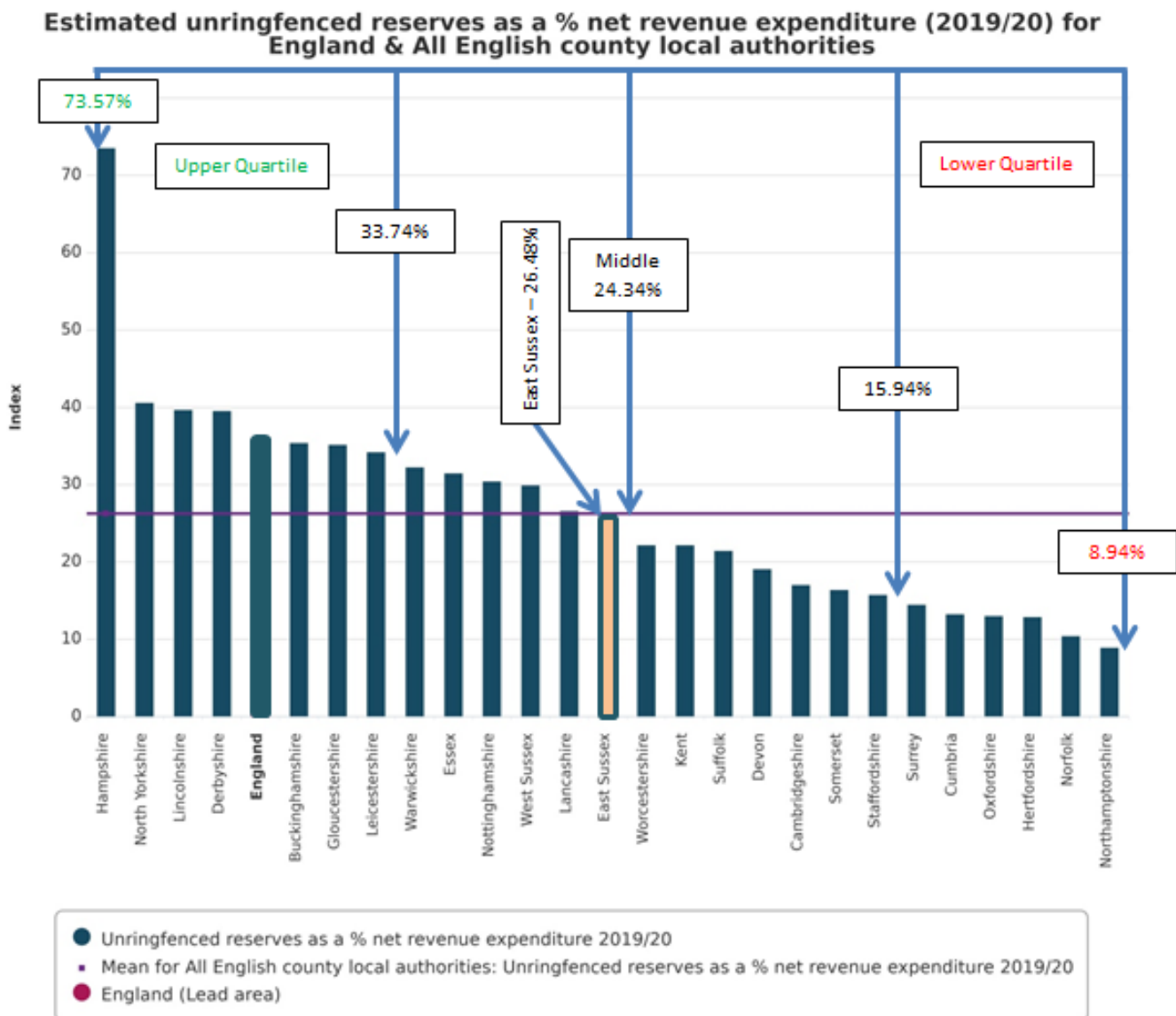
3.3 As the development of the Council Plan and budget for 2020/21 has progressed, the position has been subject to reviews with Chief Officers, other officers and Members, including Cabinet and Scrutiny Committees. Due consideration has also been given to reconciling the over-arching financial strategy 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).

3.4 The 2020/21 budget is balanced and, in finalising the draft 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 2019/20 budget. Notwithstanding that the draft budget for 2020/21 is balanced, there are significant risks to the budget arising from the continued growth in social care (particularly within Children's Services) and other service pressures together with the work required to progress towards the Core Offer. The Core Offer is not about setting a balanced budget, more about what agreed service level can be delivered; it has allowed engagement both locally and nationally on what the financial pressures on local authorities will mean. The County Council holds a general contingency of £3.85m within the base revenue budget to cushion the impact of unexpected events and emergencies in year. Additionally there is a sum (agreed at State of the County) for potential additional borrowing for the capital programme of £7.5m.

3.5 Increasing the Council Tax will provide a more sustainable income to the Council which will help to protect services. Implementing the 2% Adult Social Care precept and the allowed 1.99% precept (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 £26.6m remain available for smoothing the MTFP and mitigating any delayed achievement of savings, the core offer and any unforeseen events arising. In support of this consideration, graph 1 below shows the LGA's analysis of unringfenced reserves as a % of net revenue expenditure in 2018/19. The Council continues to be placed at 14<sup>th</sup> out of the 27 shire counties, with reserves slightly increased to 26.5%, from 25.1% last year, of net revenue expenditure. Even after applying estimated use in 2019/20 this would still see the county at 26.7% of net revenue expenditure.

**Graph 1: Unringfenced Reserves as a % of Net Revenue Expenditure 2019/20**

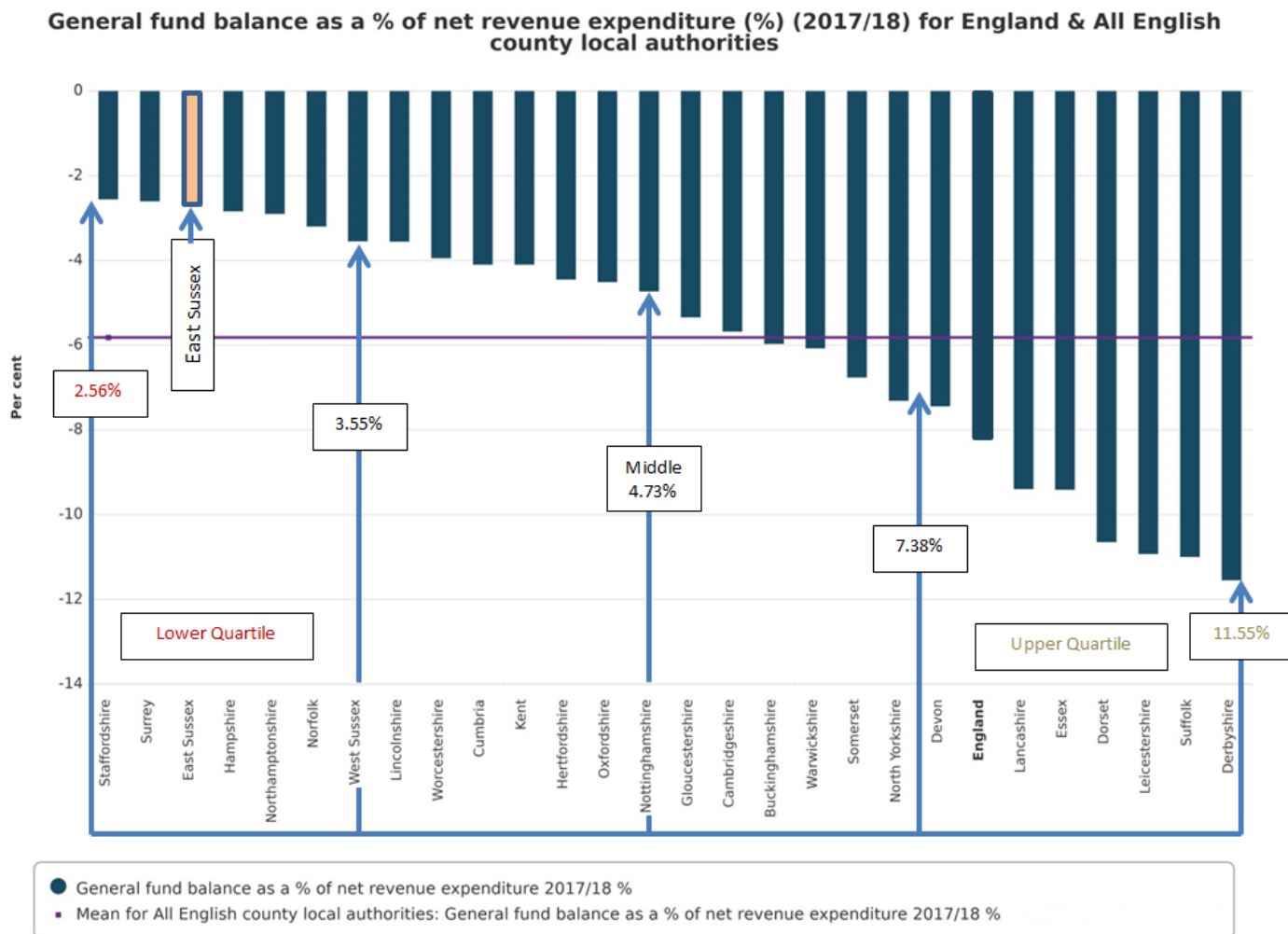


Source:  
Local Government Association

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3.7 For the **General Fund Balance** there are two main approaches taken by Councils to determine their required minimum level: either by a straight percentage of the Council's current spending: or an assessment of risks and the impact identified risks will have on the Council's overall financial position. The Local Government Association provided benchmarking data which shows that in 2017/18, the Council was ranked 25<sup>th</sup> out of the 27 shire counties in terms of general fund balance as a % of net revenue expenditure, see Graph 2 below.

**Graph 2: General Fund Balance as a % of Net Revenue Expenditure 2017/18**



Source:  
Local Government Association

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- 3.8 The challenge is to maintain an appropriate level of reserves, whilst also mitigating the pressures faced within the MTFP.
- 3.9 On 16<sup>th</sup> December the CIPFA resilience index was published, and at face value it suggests that East Sussex County Council is not as resilient as our analysis shows. The Council has a history of strong financial management that has stood us in good stead during austerity. The Council has always taken a longer term approach to financial planning and delivering savings whilst some other councils have done less well. The index from CIPFA merely reinforces these messages and there are no surprises in it. Of particular note is the indicator for fees and charges; it shows that the Council's fees and charges are 11.40% of total service expenditure. While this is only relative to other authorities' levels, it shows one of the highest and best performances of a county council. Over the last 4 years performance has improved in this area and the Council has moved from high risk to low risk, this reflects the focused work that has been done on fees and charges in recent years.
- 3.10 During the financial year, analysis has been undertaken to classify fees and charges into three categories:
1. No scope or discretion to set fees to fully recover costs (for example, if the fees & charges are statutory, pre-set or set within a framework, there is little opportunity to change the methodology for these in order to recover more costs).

2. May be scope to recover costs, but could be a good reason why not - for example, accepted element of subsidy, or the fee is to manage demand or shape behaviour.
3. Opportunity to change methodologies and to recover more costs, within the constraints of what the market will allow (i.e. likely impact on demand) (could be a phased move towards this).

Approximately 12% of the Council's fees & charges fall into category three (market led) and therefore this is a low risk area.

3.11 A risk-based assessment of issues, which could have a major impact on the Council's finances, provides a more flexible and responsive approach that better reflects the continuously changing environment within which Local Government has to work. This approach will take into account the type of risk, the potential magnitude of the financial risk and a judgement as to how likely the issue is to arise. Table 3 below identifies a number of the high level risks that may have financial implications, which assist in determining the required minimum level of General Fund Balance to be retained.

**Table 5: Financial Assessment of 2020/21 Risks**

Risk	Potential magnitude	Estimate of potential impact	Magnitude
			£m
Growing demand for services is already impacting on service budgets particularly in Children's Services (CSD) and Adult Social Care (ASC). Service departments are forecasting a £6.1m overspend in 2019/20 [Q2.5 position].	ASC 2020/21 budget £184.1m. CSD SEND budget for 2020/21 £11.7m.	2% increased unfunded demand	3.9
Risk that inflation on utilities and other areas where budgets were not uplifted for inflation become unmanageable within budget allocations.	Total utilities and other budget 2020/21 circa £86m.	3% increase in current provision.	2.6
Risk that inflation on pay is more than the allocated 2.5% due to pressure from unions and political commitment.	Between 0.5% and 2.5% additional increase	£0.7m per 0.5%	0.7 to 3.5
Delivery of the core offer is complex and plans still to be finalised. Therefore a risk exists that it will not be possible to make the planned service changes within the timeframe required.	Impact of moving to core offer is £3.5m of savings in 2020/21	20% non-achievement	0.7
Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing economic climate.	Planned Fees & Charges for 2020/21 is £64.9m.	Underachievement provision of 5%	3.2
Business Rate Revaluation and forecasting risk significantly increases risk of inaccurate forecasts.	Reduction in anticipated revenue from Business rates local share of £12.1m.	Rates collected reduces by 5%	0.6
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 as opposed to additional prevention cannot be quantified. Additionally, the impact of the recently-declared Climate Emergency is yet to 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 i.e. floods	0.5% of insurance reserve & provision	0.05



<b>Impact of Brexit:</b>			
Inflation (excl. pay award)	Inflation provided in MTFP £9.8m.	5% increase in current provision	0.5
Infrastructure (e.g. transportation links; emergency planning)	£49.3m estimated highways infrastructure expenditure 2020/21 to 2022/23	2% additional cost	1.0
Unexpected Costs (e.g. additional trading standards officers; waste collection; service delivery etc.)	Estimated net budget for ESCC in 2020/21 is £403.4m.	1% increase in costs	4.0

3.12 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 2020/21 and that, in addition, as noted at 3.4, an in-year contingency is held.

3.13 The MTFP provides an estimated position for the next three years, shown at Table 4.

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

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
Estimated Annual Deficit / (Surplus) - non cumulative	£0.000m	£1.443m	£7.879m
Estimated Annual Deficit / (Surplus) - cumulative	£0.000m	£1.443m	£9.322m

3.14 We are balancing the budget for 2020/21, 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 2021/22.

3.15 For future years work will continue to identify. In addition the effects of a number of national funding decisions will impact on the financial position. 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:-

- Changes to the Local Government finance system to pave the way for the implementation of Business Rate Retention. As part of these reforms, the main Local Government grant will be phased out and additional responsibilities devolved to Local Authorities. This will be through incorporating existing grants including Public Health (effectively ending the ring fence) and Revenue Support Grant. The new responsibilities are as yet unknown and could bring significant risks to funding, particularly if they are demand led. Business Rate Retention will sit alongside the implementation of the outcome from the fair funding review, and the Government have announced they will aim for local authorities to retain 75% of business rates from 2020/21. Business rates will then be redistributed according to the outcome of this new needs assessment. It is not currently possible to estimate the impact of this on the Council until further detail is provided;
- The Comprehensive Spending Review 2020 will change the total quantum of funding to Local Government;
- 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.

3.16 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.

3.17 In addition to all these areas of uncertainty, the effects of Brexit on the economy of the country, the duties the Government expects us to carry out and the workforce available to both the Council and the service providers on whom we rely, particularly in the Care Sector, remain unclear. It will be an additional factor that we need to take into account as the details of any deal and the practical realities begin to emerge.

## Reserves and Balances Policy

### 1.0 Background

This policy sets out the Council's approach to reserves and balances. The policy has regard to 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;
- 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.