Appendix 6

<u>Reserves and Budget Robustness Statement</u>

1.0 Reserves

1.1 The Council's (ESCC) approach to the management and accounting for earmarked reserves is set out in the Reserve Strategy adopted by the Cabinet in June 2017 and updated as part of Quarter 1 reporting in September 2021. 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 impaired. Reserves can only be spent once and the possibility of creating new reserves is limited in an era where budgets are tight and can become overspent, not just individually but corporately.

1.3 Reserves are a key element of the Council's financial management arrangements. Reserves can be broadly categorised as follows:

- **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 £156.0m as at 1 April 2022: an increase of £19.7m against the actual reserves at 1 April 2021 totalling £136.3m. Given the financial uncertainties as a result of Covid-19, national and international supply chain issues impacting on inflation, Adult Social Care Reform and the potential of unfunded burdens, the prominence of the Levelling Up agenda at Spending Review 2021 and the Local Government Financial Settlement, increasing reserve levels, where possible, continues to be a priority. Movements in year are:

- Priority Outcomes and Transformation – a net increase of £9.0m; the main movement being £8.9m for future one-off investment on visible road improvements and climate change projects.
- Capital reserve – a net increase of £7.3m; the key movements being a £5.7m transfer from the Financial Management Reserves plus transfer of the £2.1m Treasury Management underspend reported for quarter 1. This is reflective of the use of reserve to fund items of investment for which the Council would not want to borrow and is consistent with the new capital strategy.
- A net increase of £1.4m in reserves held on behalf of others or statutorily ringfenced;
- Insurance reserve – a decrease in the balance of £0.6m, in support of insurance claims in 2021/22.
- Financial Management – a net increase of £2.6m, movements shown in Table 1 below.

Table 1: Movements in Financial Management Reserve 1 April 2021 to 1 April 2022

Description	Movement
Services Grant set aside for one-off investment	£5.2m
Estimated balance after Finance Settlement to mitigate future risks around Children's Services, SEND, Adult Social Care, Funding Reform and Covid legacy.	£5.0m
2021/22 Q1 - General Contingency transfer of £1.332m	£1.3m
Business Rates Retention and Proceeds of Pooling 2021/22	£1.3m
Contribution of Collection Fund Adjustment	£1.1m
Investment Projects - Edge of Care (formerly No Wrong Door)	£1.0m
Transfer to Capital Programme	£(5.7)m
Modernising Back Office Systems (MBOS)	£(1.6)m
Redundancies (all Depts)	£(1.2)m
Social Workers - Market Supplement	£(1.1)m
Investment Projects - Accommodation and Floating Support	£(0.8)m
County Council election costs	£(0.8)m
Various other movements not exceeding £0.5m individually	£(1.1)m
Total Movement	**£2.6m**

1.5 The estimated balance at 31 March 2026 is now £91.7m. Of this £25.0m 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 2: Summary of Reserves

	State of the County Report 2021 (£m)		Full Council February 2022 (£m)	
	01.04.21 Actual	Estimated Balance at 31.03.25	01.04.22 Estimate	Estimated Balance at 31.03.26
Earmarked Reserves:				
Held on behalf of others or statutorily ringfenced	**32.3**	**31.7**	**33.7**	**34.2**
Named Service Reserves				
Waste Reserve	16.1	5.0	16.1	9.7
Capital Programme Reserve	12.4	8.9	19.7	7.5
Insurance Reserve	7.4	5.4	6.8	5.3
Adult Social Care Reform Reserve (NEW)	0.0	0.0	0.0	0.0
Subtotal named service reserves	**35.9**	**19.3**	**42.6**	**22.5**
Strategic Reserves				
Financial Management	50.1	25.2	52.7	21.8
Priority Outcomes and Transformation	8.0	3.4	17.0	3.2
Subtotal strategic reserves	**58.1**	**28.6**	**69.7**	**25.0**
Total Earmarked Reserves	**126.3**	**79.6**	**146.0**	**81.7**

General Fund Balance		***10.0***	***10.0***		***10.0***	***10.0***
TOTAL RESERVES		**136.3**	**89.6**		**156.0**	**91.7**

1.6 Additionally, Covid grant balances are held in the Grants and Contributions (IAS20) Reserve; clarity has been received that the Contain Outbreak Management Fund can now be carried forward beyond 31 March 2022. The carry forward of £19.9m of COVID fund provides the opportunity to continue to mitigate the impact of COVID, within grant conditions. The estimated balances are shown in Table 3 below:

Table 3: Covid Grant Balances

COVID-19 Grants 2021/22 (£m)	Carried forward	Expected in-year	Forecast usage in-year	Specific set-aside for LAC in future yrs	Forecast balance remaining
COVID-19 General Funding	15.132	11.979	(9.704)	(4.457)	12.950
COVID-19 Specific Funding	15.784	27.928	(36.804)		6.908
Total funding	**30.916**	**39.907**	**(46.508)**	**(4.457)**	**19.858**

1.7 At 1 April 2022 the estimated Earmarked Reserves are as follows:-

1.8 **Held on behalf of others or statutorily ringfenced** amount to £33.7m – most significantly this comprises £20.5m schools' balances which cannot legally be spent on ESCC activities, and ringfenced Public Health Reserve of £5.8m.

1.9 **Named Service Reserves** that are set aside to manage a specific financial risk, amount to £42.6m 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.
- 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 2026 is now £7.5m; this reduces to zero over the life of the capital programme.
- Insurance Reserve – this is to fund insurance liabilities that have arisen over previous years, based on the liability estimated by the Actuary in 2021 and other local knowledge and represents estimates that may become payable in 2022/23 and beyond.
- Adult Social Care Reform Reserve – it is proposed that a reserve is set up to support the financial risk of this reform. The Market Sustainability and Fair Cost of Care Fund grant of £1.7m and ASC precept of £3.1m have been allocated to the service for 2022/23; any unused funding will be transferred to this reserve.

1.10 **Strategic reserves** are as follows:-

- A Financial Management reserve – to manage the potential financial consequences of risks recognised in the Council's risk management arrangements and the Chief Finance Officer's (CFO) robustness statement, including the risk of the pay award being over that planned within the Medium Term Financial Plan (MTFP). It also enables wider management of the medium-term financial strategy and the investment strategy. In 2022/23 this will also include additional investment in the authorities core financial systems.

- The Priority Outcomes and Transformation reserve – to fund the transformation programme to change, protect and improve Council services, and programmes that meet the Council's priority outcomes.

1.11 There has been a movement overall on the strategic reserves since they were last reported; The balance at 31st March 2025 of the strategic reserves was estimated to be £28.6m and is now estimated at £25.0m at 31st March 2026. The key movements in these balances are as follows:

- Priority Outcomes and Transformation reserve – a reduction of £0.2m relating to planned use of balances derived from the Additional Voluntary Contributions Scheme.
- Financial Management reserve — a net reduction of £3.4m, movements shown in Table 4 below:

Table 4: Movements in Financial Management Reserve

Description	**Movement**
2021/22 Q1 - General Contingency transfer	£1.3m
GCS Consolidated Store – Ropemaker storage facility	£0.1m
Additional set aside for MBOS	£(3.3)m
Social Workers - Market Supplement	£(1.0)m
Draw for Pay Award 2020/21 extra 0.25%	£(0.5)m
Total Movement	**£(3.4)m**

1.12 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, the considerable costs and pressures presented by COVID-19 and the EU Exit. That uncertainty is brought into sharp focus given the lack of clarity about what funding will be provided for councils beyond next year as a result of the levelling up agenda and Adult Social Care reform. It is essential that we maintain sufficient reserves to weather this period of 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, and therefore this will apply to any unused contingency once the final outturn position is known and other one-off funding.

1.13 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. 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 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.

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 2022/23 budget proposal.

3.1 It is the opinion of the CFO that the draft budget for 2022/23 is based upon a sound financial strategy that will enable the Council to deliver its proposed Council Plan successfully.

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

3.3 As the development of the Council Plan and budget for 2022/23 has progressed, the position has been subject to reviews with Chief Officers, other Officers and Members, including Cabinet and Scrutiny Committees. Due consideration has also been given to reconciling the over-arching financial strategy with corporate priorities and hence all the proposals have been developed as an integral part of service planning (the process known as Reconciling Policy, Performance and Resources (RPPR)).

3.4 **The 2022/23 budget is balanced** and, in finalising the budget, consideration has been given to unforeseen issues that could arise during the year and ensuring that those risks can be managed. The strategic risk register has been reviewed and an analysis of ESCC's financial position in the current year has been carried out, to identify direct impacts and risks that are inherent within the 2021/22 budget. Notwithstanding that the draft budget for 2022/23 is balanced, there are significant risks to the budget as the impact on residents, services and the economy of East Sussex of COVID-19 continues. The County Council holds a general contingency of £4.3m within the base revenue budget to cushion the impact of unexpected events and emergencies in year. Additionally there is a sum (agreed at Full Council in February 2021) 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 2.5% 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 £69.7m remain available for support to the MTFP and any unforeseen events arising. In particular any financial pressures arising as a result of the ongoing pandemic that are not covered by the grant made available by the

Government. This represents 15% of Net Revenue Expenditure (NRE) and excludes Covid funding.

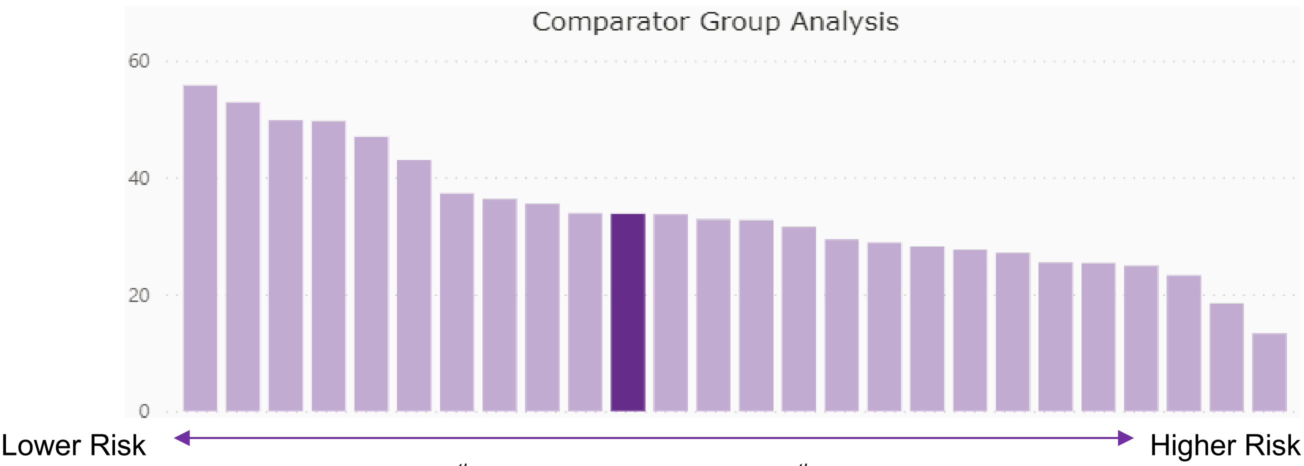
3.7 The Society of County Treasurers' (SCT) Technical Support Team, has examined local authority reserve data submitted to the Department of Levelling Up, Housing and Communities (DLUHC) published in October 2021 for the period from 2016-17 to 2020-21. *The analysis only includes those authorities who were able to provide figures for each year*.

3.8 Table 5 shows a marked increase between 2019-20 and 2020-21 reserves, even excluding unspent COVID funding. Shire Counties and SCT members have seen their earmarked reserves increase at the slowest pace. SCT members, who are responsible for approximately 34-35% of NRE, tend to hold between 24% and 26% of all earmarked reserves and this holds true even with the 2020-21 figures. Inner and outer London, who together make up a combined 15% of NRE, each hold 6-8% each year. Shire Districts who have responsibility for just 3% of NRE hold approximately 13-14% of the earmarked reserves. As a direct comparison ESCC holds £117.8m; 26% of NRE excluding schools' balances, public health and covid funding.

Table 5

	Increase in Other Earmarked Reserves between years				
	2016-17 to 2017-18	2017-18 to 2018-19	2018-19 to 2019-20	2019-20 to 2020-21 (including COVID reserves)	2019-20 to 2020-21 (excluding COVID reserves)
Shire Districts	13%	9%	6%	66%	40%
Shire Counties	12%	10%	21%	28%	20%
Unitaries	7%	3%	8%	55%	26%
Met Districts	5%	7%	16%	73%	26%
Inner London Boroughs	-2%	20%	15%	101%	37%
Outer London Boroughs	8%	7%	8%	39%	31%
SCT members	12%	7%	15%	31%	19%
England Total	**5%**	**13%**	**6%**	**54%**	31%

3.9 The CIPFA resilience index also provides an indicator of the robustness and reasonableness of levels of reserves. The graph below published by CIPFA as part of this index in February 2021 looks at the current level of reserves again as a percentage of net revenue budget (NRB). CIPFA describes these as usable reserves and exclude the public health reserve. It shows that ESCC (highlighted) held reserves of 33.75% in 2019/20 of NRB. The Council is in the lower risk middle quartile, at 16th highest at risk of the 26 Shire Counties.



[Note: WSCC at 32.72% ranked 14th, SCC 32.83% ranked 13th, Highest Risk: Northamptonshire 13.32%]

3.10 For the **General Fund Balance** there are two main approaches taken by Councils to determine their required minimum level; Past guidance recommended that general fund should be equivalent to a certain percentage of an authority's budget but in recent years that prescribed level has been replaced by an assumption that finance officers will set aside an amount that they feel is appropriate given the levels of risk facing their authority.

3.11 The SCT has complied the data available to present an analysis of the position between 2016 and 2021. In 2016-17 these unallocated reserves represented approximately 3.9% NRE. By 2020-21 unallocated reserves represent 4.9% of NRE, reflecting the increasing perception of risk. The following table illustrates the general, unallocated, reserves as a proportion of the outturn NRE figure. (Please note, as these figures are only for those authorities who provided figures for the whole 5-year period the cash values have not been included).

Table 6 - General Fund – outturn position expressed as a percentage of NRE

	General (unallocated) reserves – outturn position expressed as a percentage of NRE				
	2016-17	2017-18	2018-19	2019-20	2020-21
Shire Districts	24.5%	24.7%	24.4%	23.9%	30.8%
Shire Counties	2.4%	2.4%	2.7%	2.7%	3.1%
Unitaries	3.5%	3.6%	3.7%	3.5%	4.7%
Met Districts	2.8%	3.2%	3.1%	3.0%	4.1%
Inner London Boroughs	3.6%	4.2%	3.6%	3.3%	3.6%
Outer London Boroughs	3.4%	3.4%	3.1%	3.1%	4.0%
SCT members	2.8%	2.8%	3.0%	3.0%	3.4%
England Total	**3.9%**	**4.0%**	**4.0%**	**4.2%**	**5.0%**

3.12 As a direct comparison ESCC holds £10.0m 2% NRE. In addition, the County Council holds a general contingency of £4.3m (1% of NRE less Treasury Management) within the base revenue budget to cushion the impact of unexpected events and emergencies in year.

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

3.14 To ensure the ongoing approach of maximising fees and charges they continue to be classified 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. Work however continues to ensure full recovery is targeted in this area.

3.15 A risk-based assessment of issues, which could have a major impact on the Council's finances, provides a flexible and responsive approach that helps reflect 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 7 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 7: Financial Assessment of 2022/23 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 £3.3m BAU overspend in 2021/22 [Q2 position]. In addition Adult Social Care Reform increases the risk of significant unfunded costs and other self-funder and market impacts.	ASC 2022/23 budget £200.7m. CSD SEND budget for 2022/23 £12.4m.	3% increased unfunded demand	6.4
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 (gross) 2022/23 circa £216.8m.	5% increase in current provision.	10.8
Risk that inflation on pay is more than the contingency of 1.75% due to pressure from unions and political commitment.	Each 0.5% increase is approx. £0.7m	Between 0.5% and 2.5% additional increase	0.7 to 3.5
Non achievement of Fees & Charges targets built into the revenue budget, due to the continuing pandemic and economic climate.	Planned Fees & Charges for 2022/23 is £69.4m.	Underachievement provision of 5%	3.5
Levelling up agenda	Reduction in anticipated revenue from Business Rates and Council Tax.	Rates collected reduces by 5%	21.0
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.	Historic winter maintenance spend is circa £1.1m. Pressures due to unknown event impacts i.e. floods	10% increase in costs due to adverse weather 0.5% of insurance reserve & provision	0.1 0.04
National and International Trade and Supply Chain Issues causing: Excess inflation Unexpected Costs (e.g. additional trading standards officers; waste collection; service delivery etc.)	Inflation provided in MTFP £15.4m. £63.8m estimated highways infrastructure expenditure to 2024/25	5% increase in current provision. 2% additional cost	0.8 1.3
COVID-19 Ongoing impacts and implications beyond April 2022 As noted at 3.6 the strategy is to hold as much in reserve as possible to manage the risk that grants provided do not cover the ongoing costs of the pandemic and post pandemic demand and inflation.	-	-	-

3.16 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 2022/23 and that, in addition, as noted at 3.4, an in-year contingency is held.

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

Table 8: Medium Term Financial Plan Position

	2022/23	2023/24	2024/25
Estimated Annual Deficit / (Surplus) - non cumulative	0.000	2.892	6.716
Estimated Annual Deficit / (Surplus) - cumulative	0.000	2.892	9.608

3.18 We are balancing the budget for 2022/23, 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 2023/24.

3.19 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, the timing of which is yet to be determined. These are significant areas of change that currently are not fully understood and cannot be fully quantified but will have potential significant financial impact, and include:-

- Adult Social Care reform and potential new burdens;
- 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.

3.20 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.

3.21 In addition to all these areas of uncertainty, are the effects of EU Exit and Covid 19 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, continue to remain unclear.

Annex A

Reserves and Balances Policy

1.0 Background

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

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

2.0 Types of Reserve

The Council will maintain the following reserves:

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

2.1 Earmarked reserves will be maintained as follows:

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

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

3.0 Principles to assess the adequacy of reserves

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

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

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

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

4.0 Underspends

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

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

5.0 Use of reserves

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

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