Appendix A

Reserves Strategy & Policy

1. Background and Context

1.1. Sections 32 and 43 of the Local Government Finance Act 1992 require councils to consider the level of reserves when setting a budget requirement. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer (Section 151 Officer) to report formally on the adequacy of proposed reserves when setting a budget requirement. This is completed at the Council through the 'Section 25 Report of the Director of Finance' contained within the Medium-Term Financial Strategy (MTFS). The accounting treatment for reserves is set out in the Code of Practice on Local Authority Accounting.

1.2. In March 2023 CIPFA issued their Bulletin 13 – Local Authority Reserves and Balances (Updated), and replaces the previous guidance provided in LAAP Bulletin No.99. Compliance with the guidance is recommended in CIPFA's Statement on the Role of the Chief Financial Officer in Local Government. In response to the above requirements, this strategy sets-out the Council's approach for compliance with the statutory regime and relevant non-statutory guidance for the Council's cash backed usable reserves.

1.3. All reserves will be categorised as per the Local Authority Accounting Practice guidance, into appropriate groupings.

1.4. Within the Statement of Accounts for General Fund Earmarked Reserves, all individual reserves are reported and include a description of the purpose of the reserve.

1.5. Earmarked reserves will be reviewed regularly as part of the in-year monitoring process and annually as part of the budget setting process, to determine whether the original purpose for the creation of the reserve still exists and whether or not the reserves should be released in full or in part or require topping up based on known / expected calls upon them. Particular attention will be paid in the annual review to those reserves whose balances have not moved over a two-year period, other than the General Fund, for further detail see Section 4 Management and governance.

2. Overview

2.1. The Council will maintain:

- a general fund reserve
- a number of earmarked reserves in relation to specific purposes

2.2. The level of the general reserve is a matter for the Council to determine having had regard to the advice of the S151 Officer. Due to the prevailing economic uncertainties facing RCC finances, the S151 Officer is recommending a repurposing of the balance of the General Fund balance to increase the transparency and the strategic use of this fund to achieve financial sustainability over the MTFS period.

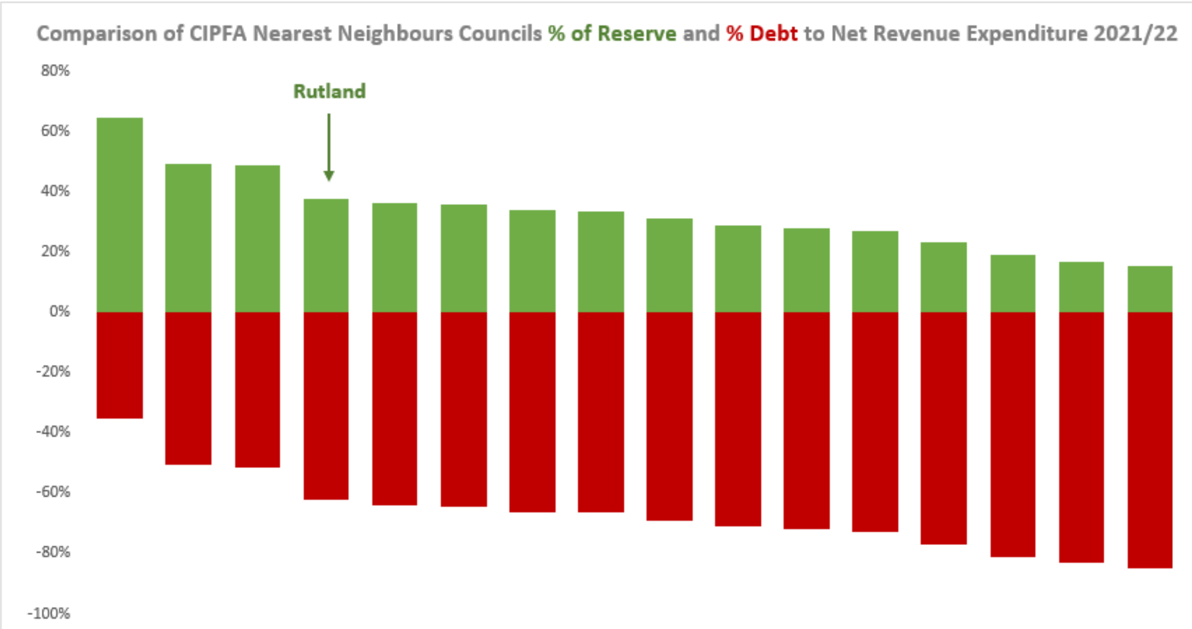
2.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

1. Assumptions regarding inflation and interest rates
2. Estimates of the level and timing of capital receipts
3. The capacity to manage in-year demand led pressures

4. Ability to activate contingency plans if planned savings cannot be delivered
5. Risks inherent in any new partnerships
6. Financial standing of the authority (level of borrowing, debt outstanding etc.)
7. The authority's record of budget management and ability to manage in year budget pressures
8. Virement and year-end procedures in relation to under and overspends
9. The general financial climate
10. The adequacy of insurance arrangements

2.4. Each Council must make their own decisions about the level of reserves they hold, taking into account all of the issues referred to above. An assessment with regards to these factors and the level of reserves held is included in the Budget document and forms part of 'Section 25 Report of the Director of Finance', and an initial assessment included as part of the introduction of this Strategy.

2.5. As at 31 March 2022, which is the latest set of meaningful data comparisons, Rutland is ranked 4 out of 16 CIPFA Nearest Neighbour Councils in terms of the percentage of reserves held as a proportion of their budget. The range of reserves held as a percentage of budget is wide; the lowest authority at 8%, up to the highest at 110%. Rutland's figure is 39%. It is



worth looking at reserves alongside borrowing, as borrowing can be used to protect reserves, or reserves used to reduce borrowing. This is an area that is to be reviewed alongside the fiscal health indicators of the Council. The data referred to is captured in the chart below:

2.6. This strategy is based on the establishment of six key reserves / funds which will provide a balance between funds required for investment to bring financial sustainability to the Council alongside funds for risk mitigation activity. These reserves / funds are detailed in the following sections, and in summary are:

- General Fund
- Financial Sustainability Strategy Reserve
- Risk Reserve
- Departmental Reserves
- Innovation Fund
- Process Improvement Fund

2.7. The level of the general fund reserve will be a matter of judgement which will take account of the specific risks identified through the various corporate processes. A risk assessment of the General Fund will be made each year as part of the Section 25 Report of the Strategic Director of Resources (S151 officer). The level will be expressed as a percentage of the general funding requirement (to provide an indication of financial context). As part of the Financial Sustainability Strategy the Council agreed that it should hold as a minimum general reserve an equivalent to 5.5% of the Council's Net Revenue Expenditure, or £3m by the end of the strategy period. This approach and value remains reasonable given 2.8.

2.8. A Risk Reserve will be set up take account of specific risks to be covered through earmarked reserves. An initial assessment as at the end of July 2023 is provided in Appendix A. This Risk Reserve will provide the Council with approximately 2.5 to 3 times the value of risk identified using the risks factors listed in 2.3. These factors have been allocated a financial value based on an assessment of the risk by the S151 officer and a multiplier applied. The multiplier reflects the approximate timings to mitigate the financial impact of the risk once materialised by proactive management, as outlined below:

<table>
<tr><th>Stage</th><th>Financial risk cover</th><th>Action</th></tr>
<tr><td>Stop risk activity & reduce financial risk</td><td rowspan="3">Between 2.5 – 3 times the financial risk identified</td><td rowspan="3">Proactive management action to cease risk exposure</td></tr>
<tr><td>Reduce financial risk further to minimal activity</td></tr>
<tr><td>Activity back in line with budget assumptions</td></tr>
</table>

2.9. This Strategy moves the Council from managing its reserves from a binary approach of General Fund and Earmarked Reserves to key funds based on the strategic financial approach over the medium term, see point 6.3.

2.10. This report is being considered part way through the 2023/24 financial year, with Council approval planned for September 2023. In future years, this strategy will form part of the MTFS and therefore approval at Full Council in the February with regular review as part of the in-year monitoring process.

3. Strategic investment funds

3.1. The Council continues to face a shortfall in funding compared to expenditure demands and must annually review its priorities to address the shortfall. The current Financial Sustainability Strategy contains some challenging saving targets, and in order to become financially sustainability further transformational change will be required over the medium to long term.

3.2. To achieve financial sustainability, the Council will need to invest in a range of innovative and transformational activities in order to reduce future costs of service delivery. As part of the 2022/23 Outturn process two funds were designated to fund such activity:

- the Innovation Fund
- the Process Improvement Fund

The Innovation Fund

3.3. The balance on the Innovation Fund has been determined by assuming an approximate payback period of one year on the required investment (see formula below). For this purpose,

$$\text{Realisation of Savings (Years / Months)} = \frac{\text{Investment Costs}}{\text{Value of Savings}}$$

the Transformational Savings of £4.0m identified in the current MTFS has been used as the determining factor for the value of the reserve.

3.4. Use of the Fund will be based on receipt and approval of Outline Business Cases which will provide an overview of the proposal, key milestones and timing of delivery of the proposal, along with a profile of the investment and achievement of savings and / or efficiency gains.

3.5. Savings from this Fund will directly support the savings required as part of the MTFS.

The Process Improvement Fund

3.6. For the 2023/24 budget and beyond the balance on the Process Improvement Fund will be maintained in the region of £1.5m-£4m, and will be drawn-down on the basis of business cases that either pay back the original contribution, or result in significant service improvements, or significantly reduced costs compared to the 'do-nothing' option.

3.7. Savings obtained from the use of these funds will be reinvested back into the fund creating a 'rolling fund' and an investment fund that is self-sustaining.

3.8. The use of this Fund must meet the criteria as described in the table in 5.4.

Summary for investment funds

3.9. Innovation and transformation need to be a constant and therefore any opportunity to replenish these reserves will be considered as part of each year's annual budget setting process, and any outturn opportunities offered by any underspends. As such, once the General Fund and Risk Reserve targets are achieved, any additional funds through underspends should be placed in the Innovation Fund and / or the Process Improvement Fund unless circumstances require alternative use.

3.10. The Council is in receipt of interest earned through investments of its cash balances to support its general spending plans. If the capital programme requires Council funding it is recommended that to avoid interest payments on borrowing the Council will effectively internalise that borrowing requirement by use of cash balances, including sums held in reserves and general positive cash flows. The Council will be able to facilitate this approach through use of the balances held in reserves that will help reduce on-going revenue costs. The use of reserves will reduce the opportunity to reduce costs of capital / interest receipts.

3.11. Reserves are one-off money. The Council will avoid using reserves to meet ongoing financial commitments, other than as part of the Financial Sustainability Strategy, and one of the Council's financial principles is to stop the use of one-off funding to support the base budget ie this reserves strategy will prevent reserves being applied merely to balance the budget.

4. Management and governance

4.1. For each earmarked reserve held there will be a clear protocol setting out:

- The reason for/purpose of the reserve
- How and when the reserve can be used
- Procedures for the reserve's management and control
- A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

4.2. All protocols should have an end date and at that point any balance will be transferred to the General Fund. If there is a genuine reason for slippage, then the protocol will need to be updated. A questionnaire will be completed by the relevant budget manager and reviewed by Finance to ensure all reserves comply with legislative and accounting requirements.

4.3. Reserves protocols must be sent to the Finance team for review and will be approved by the S151 Officer, the Corporate Leadership Team (CLT), and by the Cabinet Member for Finance. Protocols should clearly identify contributions to and drawdowns from reserves across the lifetime of the MTFS, and these will be built into the Annual Budget. Ongoing recurring costs should not be funded from reserves unless part of a smoothing reserve and approved as part of the MTFS. The short-term use of reserves may be agreed to provide time to plan for a sustainable funding solution in the following financial year. Decisions on the use of reserves may be delayed until financial year-end and will be dependent on the overall financial position of the Council rather than the position of just one budget area.

4.4. All earmarked reserves will be reviewed as part of the monitoring process, the budget preparation, financial management and closing of accounts processes. Cabinet will be presented with the monitoring of reserves on a regular basis and in the outturn report and the Council will consider a report from the S151 Officer on the adequacy of the level of reserves in the annual budget-setting process.

4.5. The use of reserve funds will be subject to the usual governance processes. The following rules apply:

- Any in-year use of the General Reserve will need to be approved by Cabinet and any planned use will be part of the budget setting process.
- In considering the use of reserves, there will be no, or immaterial, impairment to the Council's financial resilience unless there is simply no alternative.

4.6. The Council will review the Reserves Strategy and Policy on an annual basis through Audit and Risk Committee.

5. General Fund and Earmarked Reserves detail

5.1. The General Fund balance is the statutory fund into which all the receipts of the Council are required to be paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. The General Fund balance summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

5.2. Earmarked reserves are amounts set aside from the General Fund balance to provide financing for future expenditure plans. In summary:

General Fund	Earmarked Reserves
• A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing • As a contingency to cushion the impact of unexpected events, major incidents or emerging risks	• Monies set aside for future events or liabilities

5.3. The Statement of Accounts that are produced each year details the Council's Earmarked Reserves and explanations as to why each are held. There will continue to be draw-down and contributions to these reserves in line with the patterns of expenditure anticipated when the reserves were created. There is no proposal within the budget to change this strategy.

5.4. The following table provides the details of all the General Fund revenue reserves:

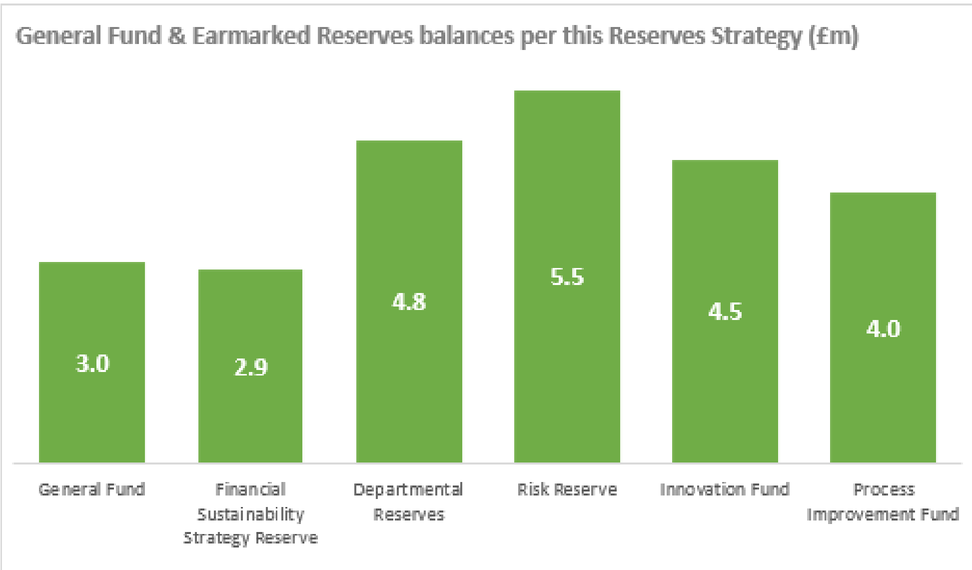
Reserve	Reserve description
General Fund	This Fund is the statutory fund into which all the receipts of the Council are required to paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. This reserve ultimately smooths the financial impact of unexpected events, major incidents or emerging risks, including: • Risks which exceed the other specific risk reserves (budget, inflation, and local taxation reserves) • The capacity to manage in-year budget pressures in relation to demand led service delivery • The general financial climate • Financial risks arising as a result of new government legislation or new burdens The Financial Sustainability Strategy states that this reserve must not be reduced lower than £3m over the period.
Financial Sustainability Strategy Reserve	This balance represents the strategic use of reserves to fund the budget gap whilst transformational activity is undertaken as per Appendix 1 of the Final Revenue and Capital Budget 2023/24 report.
Departmental Reserves	Amounts set aside by departments in accordance with financial guidance. These funds have been received in advance for specific projects covering multiple years (ie grant funding), or funding to cover specific activity (ie the Local Plan), or for existing commitments (ie DSG deficit). The balance will vary as the projects / commitments progress.
Risk Reserve	This reserve is to be used to mitigate some of the financial risk resulting from the uncertainty contained within the budget such as from rising rates of inflation, risks associated with delivering a challenging savings programme, and any timing differences due to Section 31 grants, future tax losses and the impact of the cost-of-living on income generating budgets.
Innovation Fund	The balance of the sums set aside which can be utilised to fund one-off type expenditure such as to fund service transformation with the aim of making current Council funding work harder ie efficiency gains.
Process Improvement Fund	This reserve will be used following the application of the following criteria: • Delivers against the Council's corporate strategy and priorities, • Provides on-going revenue savings, or • Provides on-going revenue income, and • Must repay costs back to the fund within an agreed period (three year payback) OR delivers a benefit to a related service that contributes to sustainability This reserve fund is not intended to: ▪ Substitute existing funding-streams ▪ Meet on-going revenue needs ▪ Provide financial support for capital works

6. The Reserves Strategy balance of funds

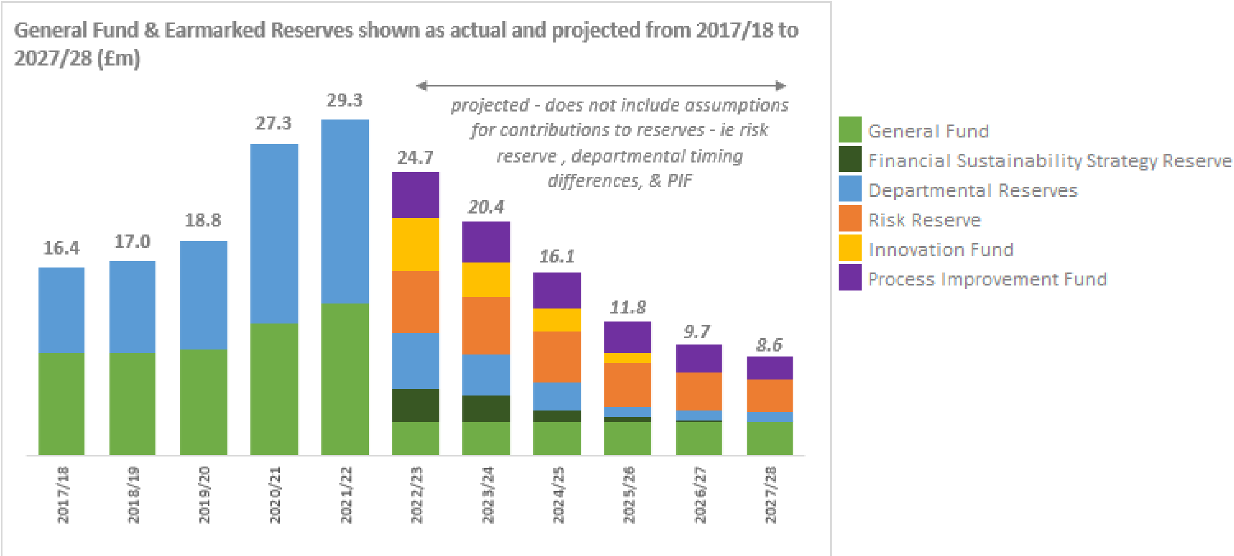
6.1. The application of this Reserves Strategy on the balance of the General Fund and Earmarked Reserves is set out in the following table. This position will be applied for the remainder of the 2023/24 financial year, used as the basis for future budgets, and reviewed and updated as part of future MTFS processes.

Reserve name	July 2023 £000	Allocation based on:
General Fund - minimum balance	3,000	Minimum level of reserve no lower than 5.5% of Net Revenue Expenditure. To cover general risks.
Financial Sustainability Strategy Reserve	2,865	Requirement as detailed in the Financial Sustainability Strategy and MTFS.
Departmental Reserves	4,786	Specific departmental commitments with planned use and timings.
Risk Reserve	5,530	Consideration of RCC exposure to the CIPFA recommended risk factors detailed in Appendix A. Estimated financial exposure to specific risks.
Innovation Fund	4,500	Based on a payback period of one year for the transformational savings identified in the MTFS and FSS.
Process Improvement Fund	4,000	Fund to invest in proposals that meet specific criteria for use and overall benefit to Council services.
Total	**24,681**	

6.2. General Fund and Earmarked Reserves balances as per this Reserves Strategy as at July 2023:



6.3. The following chart provides an illustration of this reserve strategy from previous practice to this revised strategy for Reserves. The chart shows a reduction in the reserve balances from £24.7m to £8.6m over the period. However, it should be noted that the future years are illustrative only as contributions to reserves have not been shown – ie if there is use of a risk reserve appropriate contributions back to the reserve will need to be in as part of the overall Medium Term Financial Strategy (MTFS) and timings for additional saving delivery or income generation.



General Fund & Earmarked Reserves shown as actual and projected from 2017/18 to 2027/28 (£m)
projected - does not include assumptions for contributions to reserves - ie risk reserve , departmental timing differences, & PIF
16.4
17.0
18.8
27.3
29.3
24.7
20.4
16.1
11.8
9.7
8.6
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
General Fund
Financial Sustainability Strategy Reserve
Departmental Reserves
Risk Reserve
Innovation Fund
Process Improvement Fund

Appendix A

CIPFA Recommended Risk Factors in consideration of Reserve Balances

The factors that CIPFA recommend should be taken into account when considering the level of reserves and balances. Below, each of those factors is given a ‘direction of travel’ indicator since last year’s budget was set. An upward direction means an improved position for this Council (i.e. the general trend direction of the risk, in future this will be compared to assessments made the previous year).

1. Assumptions regarding inflation and interest rates

↑

Inflation is currently at a 40 year high at 10% since the summer of 2022, well above the Government target of 2%. Forecasts suggest a reduction of less than 7% by the summer, and 5% by the end of year, and a return to the 2% target in early 2024.

Interest rates are largely determined by the base rate, which had been at 0.5% since March 2009 until it reduced to 0.25% in August 2016. In order to stabilise inflation the base rate has increased throughout the 2022/23 to 5.0% in June 2023 and further increases in Bank Rate may be required for a sustainable return of inflation to target. The lower the actual and expected rate of inflation, the better it is for our budget in net terms, but the converse may be true of interest rates.

2. Estimates of the level and timing of capital receipts

↑

For the current MTFS period reliance on capital receipts to part fund the capital programme is 1.4% of the programme with reliance reducing over the period to 2026/27. Delivery against target is encouraging but remains challenging in the current economic climate. The Council has a Capital Receipts Reserve of £1.7m which is available to fund the future programme schemes.

3. The capacity to manage in-year demand led pressures

↑

As each year passes, with reduced funding and increased demand, the Council's discretionary spend that can be ‘turned-off’ at short notice diminishes. The 2022/23 outturn, shows the impact of external influences on the Council from pressures such as rising inflation, pay awards above assumptions in the original budget plan, and the continuing risk of hospital discharge and the potential cost of additional support in ACS. These risks have been successfully mitigated during the year through application of the contingency budget of £0.4m, additional savings by holding vacancies and use of additional reserves of £1.4m.

The additional pressures experienced during 2022/23 have been factored into the MTFS. The Council is currently undertaking a Transformation programme where over £4m of saving opportunities have been identified, along side an enhanced budget setting process whereby Heads of Service are tasked to design the operation of their Service Ambition within a Cash Limit. Savings proposals are currently being formulated during 2023/24 in order to be approved through the relevant governance process of Cabinet and Council where necessary.

4. Ability to activate contingency plans if planned savings cannot be delivered

↑

Similar to the above risk; the 2023/24 budget contains some ‘safety valves’ that can be turned off in an emergency, and risks mitigated through application of contingency built into the budget for such occasions (£0.2m for 2023/24). However, reducing schemes may be potentially at the expensive in the longer-term saving delivery, and there remains the risk that the pressures will exhaust these options (as they did in in 2022/23) so reserve use is required as a last resort whilst additional saving options are found.

The savings plans in the MTFS have been risk assessed and the saving options do have a ‘spread' across the Council’s services and from a range of measures, most of which are within the Council’s control to deliver on time and on budget. However, there is a considerable amount of work needed to deliver the more transformational based savings and additional income, and there is therefore a risk of the capacity and pace needed to deliver the whole package of savings.

5. Risks inherent in any new partnerships

↔

The Council has in place a methodology which assesses the risk associated with key strategic partners. When risks are significant in terms of partnership contract risk or transport / infrastructure risks these are recorded as specific risks on the Strategic risk register. There are no such risks at this high level contained on the risk register, and all risks are being managed by departmental teams.

Risks with our key Health partners, suppliers and commercial risks with our companies remain stable, but are kept under review given the prevailing economic climate and pressures such as inflation impacting costs of supplies and services.

6. Financial standing of the authority (level of borrowing, debt outstanding etc.)

↔

The planned use of reserves of £2.9m to support the Financial Sustainability Strategy does reduce the Council's protection against a major unforeseen financial event, however given the work undertaken to mitigate in year pressures in the current financial year 2023/24 no overall forecast overspend is reported. The use of the £2.9m reserves is to help cushion high inflation and support services until transformation activities come into effect. The general financial health of the Council remains fairly static, with overall debt levels comparing favourable compared to Nearest Neighbour statistical groups.

7. The authority's record of budget management and ability to manage in year budget pressures

↔

The Council has continued to try and take the medium term view on the financial position. The Council is now focussing on how it tackles this medium term position to deliver financial sustainability. As part of the Financial Sustainability Strategy the Council commenced a transformation project that has identified saving opportunities which are now in the process of detailed development for relevant approval governance steps.

Financial performance in the 2022/23 financial year has been significantly tested as emerging inflationary pressures became apparent. However the Council responded agilely bringing financial updates and considering action more frequently than usual which enabled plans to be quickly put in place to offset the forecast overspends.

8. Virement and year-end procedures in relation to under and overspends

↔

The Council financial regulations set out clear expectations on the treatment and management of service under and overspends. The framework aims to balance incentives for services to benefit from efficiency and planned savings with the need to ensure in overall terms that policy and service priorities are being met where unplanned under or overspending occurs.

Any requests for Carry Forwards must identify the planned spend which has been delayed or the grant or other income which has been received late in the year and state the purpose for which they will be used in the new financial year. They are subject to Cabinet approval.

9. The general financial climate

↑

Inflation has exceeded 10%, with massive increases in the price of energy and other materials and services. In the UK, this is impacting on households, businesses and public sector organisations, including Councils, across the country. RCC is no exception, and the external issues outlined are significantly impacting the Councils finances. This is on top of the legacy impact caused by the pandemic. This includes the impact on the medium-term cost profile, as the pandemic impacts on demand patterns and support for residents moving forward. Beyond 2023/24 there remains uncertainty over public finances over the medium term. The approval of the Council's Financial Sustainability Strategy and MTFS provides a balanced budget with estimates for the future budget gap to be addressed and the financial strategy enables the Council to plan transformational service reform now to meet the future years funding challenges.

10. The adequacy of insurance arrangements

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This will be kept under review as risks and claims develop, but based on historic claims this does not negatively impact on our adequacy of insurance arrangements.