Appendix I

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 Integrated Budget Plan and 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 the Council's finances, the S151 Officer recommends aligning the use of reserves with their strategic use to achieve financial sustainability over the MTFS period. This enables assessment of their use and increases or decreases in fund balances to be transparently reported and shown in context of achieving the Council's objectives.

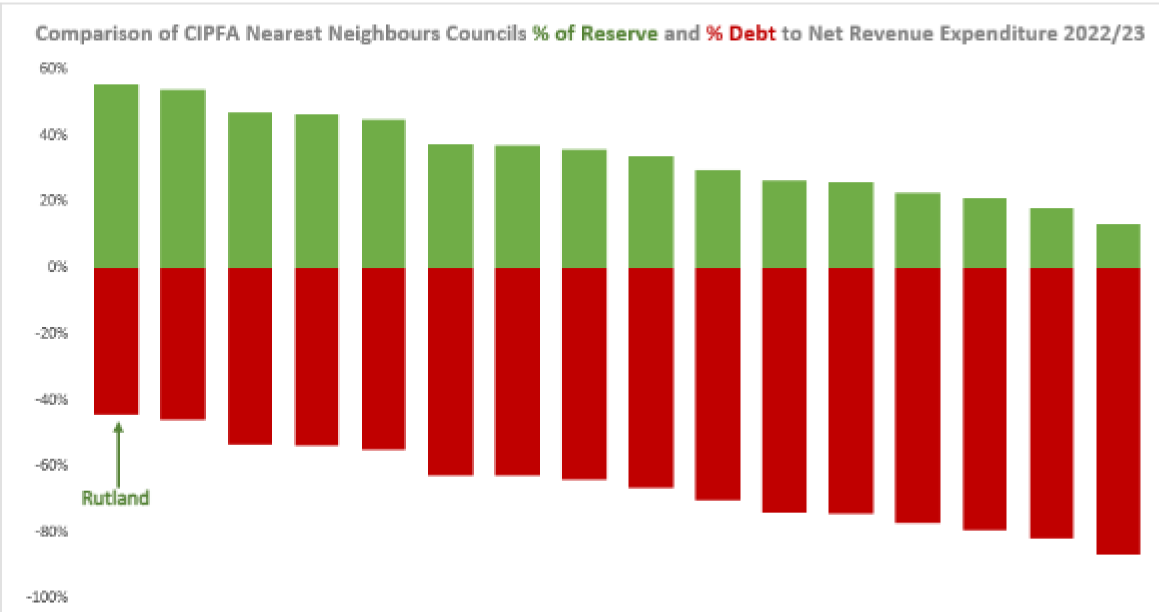
2.3. The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that the following factors should be taken into account when considering the level of reserves and balances:

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 2023, which is the latest set of meaningful data comparisons, Rutland is ranked 1 out of 16 CIPFA Nearest Neighbour Councils (previously ranked 4) 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 20%, up to the highest, Rutland, at 71%. 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, Appendix G. 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 & Budget Risk Reserve
- Risk Reserve
- Departmental Reserves & Capital Investment Fund
- 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 assessment as at the end of December 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:

Stage	**Financial risk cover**	**Action**
Stop risk activity & reduce financial risk	Between 2.5 – 3 times the financial risk identified	Proactive management action to cease risk exposure
Reduce financial risk further to minimal activity		
Activity back in line with budget assumptions		

2.9. This Strategy enables the Council to manage its reserves based on key funds which support the strategic financial approach over the medium term, see point 6.2.

2.10. This report is being considered as part of the Integrated Budget Plan 2024/25 and MTFS 2024/25 – 207/28, with Council approval planned for February 2024 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. This MTFS 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. 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, the Transformational Savings of £4.0m identified in the MTFS has been used as the determining factor for the value of the reserve.

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

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 MTFS period the balance on the Process Improvement Fund will be maintained in the region of £0.5m-£1.5m 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. Consideration will also be given to the establishment of a fund to seed fund climate change activities.

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:

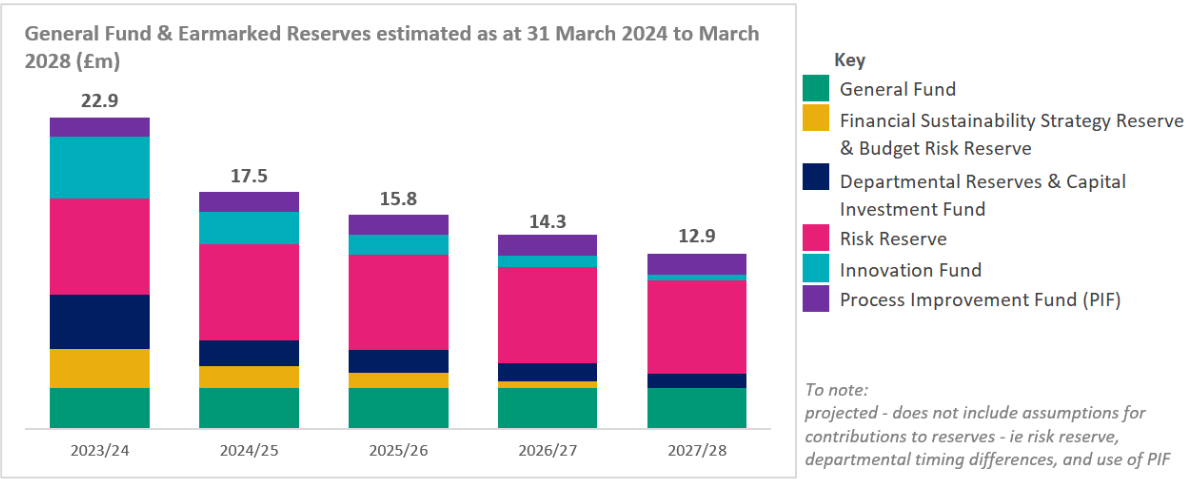
Reserve	Reserve description
General Fund	This Fund is the statutory fund into which all the receipts of the Council are required to paid in, and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise. This reserve ultimately smooths 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 & Budget Risk Reserve	This balance represents the strategic use of reserves to fund the budget gap whilst transformational activity is undertaken. The MTFS plans for £1.3m of this reserve to be used in the first year with a balance budget in the remainder of the years. This position is reliant on the delivery of saving plans. Therefore, the balance of this reserve will be used to mitigate the risk of delivering the savings on time and to value and will therefore act as a Budget Risk Reserve.
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. This includes funds set aside for investment in the Capital Programme.
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 not covered by the reserve above, 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. Balances are estimated as at 31 March.

Reserves estimated balance as at 31 March	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
General Fund	3,000	3,000	3,000	3,000
Financial Sustainability Strategy & Budget Risk Reserve	1,654	1,170	487	0
Departmental Reserves & Capital Investment Fund	1,906	1,631	1,355	1,079
Risk Reserve	7,071	7,071	7,071	6,884
Innovation Fund	2,344	1,418	868	418
Process Improvement Fund	1,500	1,500	1,500	1,500
Total	**17,475**	**15,790**	**14,281**	**12,881**

6.2. The following chart provides an illustration of this reserve strategy. The chart shows a reduction in the reserve balances from an estimated £22.9m to £12.9m over the period. However, it should be noted that the future years are illustrative only, no assumptions have been made to the use of the Risk Reserve or made with regards to contributions to reserves – 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.



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. A downward direction means an improved position for this Council (i.e. the general trend direction of the risk compared to the assessments made the previous year).

1. Assumptions regarding inflation and interest rates

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Inflation is currently at 4.7% above the Government target of 2%. Forecasts suggest a similar rate at the turn of the year, with monetary policy needing to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term

Interest rates are largely determined by the base rate, and to stabilise inflation the base rate has increased throughout 2023/24 to 5.25% in December 2023, and this maintains the 15 year high. This is aligned with policymakers' efforts to combat inflation, despite indications pointing to a deteriorating economic landscape.

The lower the actual and expected rate of inflation, the better it is for the Council’s budget in net terms, but the converse may be true of interest rates.

2. Estimates of the level and timing of capital receipts

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For the current MTFS period reliance on capital receipts to part fund the capital programme is 1.3% of the programme with reliance peaking in 2025/26. 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

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The forecast outturn position at Quarter 2 shows an overall forecast underspend of £1.6m compared to budget which largely relates to better investment income receipts (£1.3m) against the budget due to a national context of rising interest rates to combat inflationary pressures by the Bank of England.

For ‘net cost of services’ the Council is forecasting an underspend of £0.3m. This underspend is arising due to the level of vacancies across the Council. This position is mitigating pressures arising from contract price increases through changes in demand, such as increased complexity in cases in addition to numbers of clients requiring care. Vacancy levels present the Council with risks (as outlined in the Strategic Risk Register) and management are addressing the impact of staffing levels on the performance of services, delivery of the Corporate Strategy, and the sustainable nature of this risk.

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

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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 remain stable, but are kept under review given the prevailing economic climate and pressures such as inflation impacting costs of supplies and services.

5. Risks inherent in any new partnerships

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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.)

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The planned use of reserves of £1.3m to support the Financial Sustainability Strategy does reduce the Council's protection against a major unforeseen financial event, however a forecast underspend in the current financial year provides opportunities to contribute to reserves alongside management action to address vacancy levels, stabilise key service delivery, alongside bringing forward some transformational change. 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

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The Council has continued to try and take the medium-term view on the financial position. The Council is has focused on the medium term position to deliver financial sustainability. The transformation workstreams are embedded into Service Ambitions and savings plans are integral in how services will be delivered over the period, as detailed in this MTFS.

Financial performance in the 2023/24 is encouraging and is enabling management to manage and mitigate risks now to aid financial sustainability in the medium to long term.

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

The Council's 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.

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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.

A Reserves Strategy and Policy was agreed by Council in September 2023, with a revised version taken as part of the MTFS process. This clearly sets out the use of Reserves for investment in transformational activity that will aid financial sustainability or funds to mitigate risks inherent in the budget. The use of reserves outside of the Financial Sustainability Strategy is no longer permitted as part of the adoption of the Strategy.

9. The general financial climate

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Inflation has exceeded 10% in recent years, with large increases in the price of energy and other materials and services. In the UK, this has impacted on households, businesses, and public sector organisations, including Councils, across the country. Rutland 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 2024/25 there remains uncertainty over public finances over the medium term. The approval of the Council's Financial Sustainability Strategy and this 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.