



Thursday 9 February 2017 at 2pm

Reserves Policy

Item number: 5.7

Executive summary

Because the IJB is governance by the local authority regulations, the IJB may hold a reserve. A reserve is simple a mechanism to carry forward from one financial year to another a balance of unused funds. These funds may be specifically earmarked for a particular purposes or just held as a general financial buffer against unforeseen in year events or as part of a loner term financial plan.

The IJB is required to have a formal reserves strategy – which is attached as an appendix – which lays out what reserves will be held and how these will be reported.

Because the IJB has not the current capacity to build up a reserve there will not be any reserves in the current financial year.

The Board is asked to :-

- 1. Note the paper*
 - 2. Agree and adopt the reserves strategy.*
-

Reserves Policy

1. Purpose

- 1.1 The purpose of this report is to provide the IJB with a draft Reserves Policy for consideration and approval.

2. Recommendations

- 2.1 To note the contents of this report
- 2.2 To approve and adopt the draft reserves Strategy as laid out in the annex to this report.

3. Background and Main Report

- 3.1 The IJB approved the Financial Regulations at its meeting in October 2015. These regulations laid out that the IJB may hold reserves and the Chief Finance Officer will prepare a policy to hold and manage any such reserves which will be presented to the IJB for approval.
- 3.2 A draft reserves policy for the IJB is attached to this report and this provides full detail to support the governance for creating and holding revenue reserves for the Integration Joint Board.
- 3.3 Reserves are generally held for 3 purposes:
- i. create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - ii. create a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
 - iii. create a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities
- 3.4 The Reserves Policy suggests a prudent level of general reserve (i.e. bullets i. and ii. above) be set at around 2% of the Integration Joint Board revenue budget, excluding significant fixed costs such as FHS, Prescribing and Specialist Services. This equates to approximately £1m. This 2% compares to Midlothian Council reserves policy of 4%.

- 3.5 Whilst this level of general reserve would allow the Integration Joint Board a degree of flexibility this must be proportionate and take cognisance of the level of savings required to be delivered within the revenue budget. Given the unprecedented economic climate in which the Integration Joint Board and partners are operating this will be kept under regular review.
- 3.6 The proposed 2% should be viewed as an optimum level of reserves, to be built up over time, recognising the tension between prudent financial planning and budgetary constraints.
- 3.7 The IJB does not in 2016/17 have the resources to fund a general reserve nor does it seem likely that the financial position in 2017/18 will allow the creation of such a reserve. That said, the IJB does require a reserves policy and this policy proposes that a reserve of c. 2% of its annual budget is built up as appropriate.
- 3.8 The Reserves Policy supports the Financial Regulations which set out the financial governance framework that the Integration Joint Board will operate within.

4. Policy Implications

- 4.1 The reserves policy, if approved, will become one of the IJB's policies.

5. Equalities Implications

- 5.1 There are no equalities issues arising from any decisions made on this report.

6. Resource Implications

- 6.1 There are no resource implications arising from any decisions made on this report.

7. Risk

- 7.1 A reserve is can be used as part of the financial risk management process. Given that this reserve may take several years to build up other risk management process will have to be put in place.

8. Involving People

- 8.1 There are no implications for involving people as a result of this report.

9. Background Papers

9.1 None.

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance Officer
CONTACT INFO	David.king@nhslothian.scot.nhs.uk
DATE	17th January 2017

Appendices:	IJB's Draft Reserve Policy
--------------------	----------------------------

Reserves Policy - Index

No		Page
1.	Background	4
2.	Statutory / Regulatory Framework for Reserves	4
3.	Operation of Reserves	5
4.	Role of the Chief Financial Officer	5
5.	Adequacy of the Reserves	5
6.	Reporting Framework	6
7.	Accounting and Disclosure	6

1. Background

- 1.1 To assist local authorities (and similar bodies) in developing a framework for reserves, CIPFA have issued guidance in the form of the *Local Authority Accounting Panel (LAAP) Bulletin 55 – Guidance Note on Local Authority Reserves and Balances*. This guidance outlines the framework for reserves, the purpose of reserves and some key issues to be considered when determining the appropriate level of reserves. As the Midlothian Integration Joint Board has the same legal status as a local authority, i.e. a section 106 body under the Local Government (Scotland) Act 1973 Act, and is classified as a local government body for accounts purposes by the Office of National Statistics (ONS), it is able to hold reserves which should be accounted for in the financial accounts and records of the Integration Joint Board.
- 1.2 The purpose of a reserve policy is to:
- outline the legislative and regulatory framework underpinning the creation, use or assessment of the adequacy of reserves;
 - identify the principles to be employed by the Integration Joint Board in assessing the adequacy of the Integration Joint Board's reserves;
 - indicate how frequently the adequacy of the Integration Joint Board's balances and reserves will be reviewed; and
 - set out arrangements relating to the creation, amendment and use of reserves and balances.
- 1.3 In common with local authorities, the Integration Joint Board can have reserves within a usable category.

2. Statutory/Regulatory Framework for Reserves

Usable Reserves

- 2.1 Local Government bodies - which includes the Integration Joint Board for these purposes - may only hold usable reserves for which there is a statutory or regulatory power to do so. In Scotland, the legislative framework includes:

Usable Reserve

Powers

General Fund

Local Government Scotland Act 1973

2.2 For each reserve there should be a clear protocol setting out:

- the reason / purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserves management and control; and
- the review timescale to ensure continuing relevance and adequacy.

3. Operation of Reserves

3.1 Reserves are generally held to do three things:

- create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- create a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves; and
- create a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

3.2 The balance of the reserves normally comprises of three elements:

- funds that are earmarked or set aside for specific purposes. In Scotland, under Local Government rules, the Integration Joint Board cannot have a separate Earmarked Reserve within the Balance Sheet, but can highlight elements of the General Reserve balance required for specific purposes. The identification of such funds can be highlighted from a number of sources:
 - future use of funds for a specific purpose, as agreed by the Integration Joint Board; or
 - commitments made under delegated authority by Chief Officer, which cannot be accrued at specific times (e.g. year end) due to not being in receipt of the service or goods;
- funds which are not earmarked for specific purposes, but are set aside to deal with unexpected events or emergencies; and
- funds held in excess of the target level of reserves and the identified earmarked sums. Reserves of this nature can be spent or earmarked at the discretion of the Integration Joint Board.

4. Role of the Chief Financial Officer

- 4.1 The Chief Financial Officer is responsible for advising on the targeted optimum levels of reserves the Integration Joint Board would aim to hold (the prudential target). The Integration Joint Board, based on this advice, should then approve the appropriate reserve strategy as part of the budget process.

5. Adequacy of Reserves

- 5.1 There is no guidance on the minimum level of reserves that should be held. In determining the prudential target, the Chief Financial Officer must take account of the strategic, operational and financial risks facing the Integration Joint Board over the medium term and the Integration Joint Board's overall approach to risk management.
- 5.2 In determining the prudential target, the Chief Financial Officer should consider the Integration Joint Board's Strategic Plan, the medium term financial outlook and the overall financial environment. Guidance also recommends that the Chief Financial Officer reviews any earmarked reserves as part of the annual budget process and development of the Strategic Plan.
- 5.3 In light of the size and scale of the Integration Joint Board's responsibilities, over the medium term it is proposed that a prudent level of general reserves will represent approximately 2% of net expenditure. This value of reserves must be reviewed annually as part of the Integration Joint Board Budget and Strategic Plan; and in light of the financial environment at that time. The level of other earmarked funds will be established as part of the annual financial accounting process.

6. Reporting Framework

- 6.1 The Chief Financial Officer has a fiduciary duty to ensure proper stewardship of public funds.
- 6.2 The level and utilisation of reserves will be formally approved by the Integration Joint Board based on the advice of the Chief Financial Officer. To enable the Integration Joint Board to reach a decision, the Chief Financial Officer should clearly state the factors that influenced this advice.

6.3 As part of the budget report the Chief Financial Officer should state:

- the current value of general reserves, the movement proposed during the year and the estimated year-end balance and the extent that balances are being used to fund recurrent expenditure;
- the adequacy of general reserves in light of the Integration Joint Board's Strategic Plan, the medium term financial outlook and the overall financial environment;
- an assessment of earmarked reserves and advice on appropriate levels and movements during the year and over the medium term; and
- if the reserves held are under the prudential target, that the Integration Joint Board should be considering actions to meet the target through their budget process.

7. Accounting and Disclosure

- 7.1 Expenditure should not be charged direct to any reserve. Any movement within Revenue Reserves is accounted for as an appropriation and is transparent. Entries within a reserve are specifically restricted to 'contributions to and from the revenue account' with expenditure charged to the service revenue account.