
Integration Joint Board
24 October 2019
Agenda Item No.

Subject: **IJB Reserves Policy**

Purpose: To seek approval for the updated IJB Reserves Policy

Recommendation: The Integration Joint Board are asked to:

a) Approve the updated IJB Reserves Policy detailed in Appendix 1.

Glossary of Terms	
NHS AA	NHS Ayrshire and Arran
NAC	North Ayrshire Council
NAHSCP	North Ayrshire Health and Social Care Partnership
IJB	Integration Joint Board
PAC	Performance and Audit Committee

1.	EXECUTIVE SUMMARY
1.1	The Reserves Policy outlines the statutory and regulatory framework for reserves and the operation of reserves. The policy is one of the key financial governance documents and is one of a number of key IJB policies that are due for review.
2.	BACKGROUND
2.1	The first reserves policy was approved in 2016 and is due for review, the policy is one of several which were agreed as part of preparations for Integration and before there was a clear understanding of how arrangements would operate in practice.
2.2	<p>The purpose of a reserves policy is to:</p> <ul style="list-style-type: none"> • 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 IJB in assessing the adequacy of the IJB's reserves; • indicate how frequently the adequacy of the IJB's balances and reserves will be reviewed; and • set out arrangements relating to the creation, amendment and use of reserves and balances.

3.	PROPOSALS
3.1	<p>The IJB Reserves Policy has been reviewed, the fundamental operation of reserves has not changed. The main update to the Policy is to incorporate the policy in relation to holding a negative reserve balance and to be clearer in relation to responsibilities for planning for adequate reserves as part of the IJB budget planning.</p> <p>The updated reserves policy has been reviewed and approved by the IJB Performance and Audit Committee and is now remitted to the IJB for formal approval.</p>
3.2	<u>Anticipated Outcomes</u>
	Improved governance and clarity around the operation of reserves.
3.3	<u>Measuring Impact</u>
	The level of reserves will be considered as part of the budget setting process each year and be formally approved by the IJB.
4.	IMPLICATIONS
Financial:	None
Human Resources:	None
Legal:	None
Equality:	None
Environmental & Sustainability:	None
Key Priorities:	None
Risk Implications:	None
Community Benefits:	None

5.	CONSULTATION
5.1	The updated reserves policy has been reviewed by the IJB Performance and Audit Committee and has been shared with the Directors of Finance for NAC and NHS AA.
6.	CONCLUSION
6.1	<p>The Integration Joint Board are asked to:</p> <ul style="list-style-type: none"> Approve the updated IJB Reserves Policy detailed in Appendix 1.

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North Ayrshire Integration Joint Board

Reserves Policy

Date Effective: October 2019
Review Date: September 2022

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 North Ayrshire IJB 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 IJB.
- 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 IJB in assessing the adequacy of the IJB's reserves;
 - indicate how frequently the adequacy of the IJB'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 IJB can have reserves within a usable category.

2. Statutory/Regulatory Framework for Reserves

Usable Reserves

- 2.1 Local Government bodies - which includes the IJB 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:

<i>Usable Reserve</i>	<i>Powers</i>
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 – 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
- as 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 IJB 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 IJB; 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 IJB.

3.3 The Integration Scheme outlines that where there is an underspend in the operational budget that this can either fund additional capacity in-year or be carried forward to fund capacity in future years. Any final underspend in the operational budget in-year will be credited to IJB General Fund reserve.

4. Role of the Chief Finance Officer

4.1 The Chief Finance Officer is responsible for advising on the targeted optimum levels of reserves the IJB would aim to hold (the prudential target). The IJB, based on this advice, should then approve the appropriate reserves 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 Finance Officer must take account of the strategic, operational and financial risks facing the IJB over the medium term and the IJB's overall approach to risk management.

- 5.2 In determining the prudential target, the Chief Finance Officer should consider the IJB's Strategic Plan, the medium term financial outlook and the overall financial environment. Guidance also recommends that the Chief Finance 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 IJB's responsibilities, over the medium term it is proposed to hold a prudent level of general reserves. This value of reserves must be reviewed annually as part of the IJB Budget and Strategic Plan; and in light of the financial environment at that time. Where it is assessed that the financial environment at the time of setting the budget does not support a prudent level of reserves to be held this should be reported to the IJB together with an aspirational reserves position. The level of other earmarked funds will be established as part of the annual financial accounting process.
- 5.4 The Integration Scheme states that where there is an overspend in the operational budget the Parties will consider making interim funds available to the IJB. Where funds are not provided and the IJB has insufficient General Fund reserves the IJB may report a negative reserves position on the Balance Sheet. This position must be addressed with a plan agreed between the IJB and the Parties in relation to future plans to address the negative reserves position.

6. Reporting Framework

- 6.1 The Chief Finance 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 IJB based on the advice of the Chief Finance Officer. To enable the IJB to reach a decision, the Chief Finance Officer should clearly state the factors that influenced this advice.
- 6.3 As part of the budget report the Chief Finance 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 IJB'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 IJB should be considering actions to meet the target through their budget process.

7. Accounting and Disclosure

- 7.1 Expenditure should not be charged directly 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.