

**To: Renfrewshire Integration Joint Board**

**On: 18 March 2016**

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**Report by: Chief Finance Officer**

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**Heading: Renfrewshire IJB Reserves Policy**

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## **1. Summary**

1.1 This paper sets out the proposed Renfrewshire IJB Reserves Policy.

1.2 The purpose of this policy is to:

- explain the purpose of holding a reserve
  - identify the principles to be employed by the IJB in assessing the adequacy of the IJB's reserves;
  - the role of the Chief Finance Officer with regards to reserves;
  - indicate how frequently the reserves will be reviewed; and
  - set out arrangements relating to the creation, amendment and use of the reserves and balances.
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## **2. Recommendation**

2.1 Integration Joint Board members are asked to:

- Approve the attached Reserves Policy;
  - Delegate the management of the IJB Reserve Funds to the Chief Finance Officer.
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## **3. Background**

3.1 Section 106 of the Local Government (Scotland) Act 1973 as amended, empowers the IJB to hold reserves which must be accounted for in the financial accounts and records of the IJB. The IJB is entitled to hold reserves in order to meet the needs of the Health and Social Care Partnership.

3.2 Reserves are resources held by an organisation to fund contingencies and / or specific programmes.

3.3 As the IJB does not have any capital assets of its own, it can only currently hold two types of reserve – a General Reserves and a Renewal and Repair Reserves. This position will change if the IJB holds capital assets in future.

- 3.4 The Chief Finance Officer is responsible for advising on the targeted optimum levels of reserves the IJB would aim to hold. The IJB, based on this advice, will approve the appropriate reserve as part of the annual budget setting process, depending on the level of resources available.
  - 3.5 There is no guidance on the minimum level of reserves that should be held. In determining the level of reserves to be held, 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.
  - 3.6 It is recommended that authority for the use of IJB Reserve Funds is delegated to the Chief Finance Officer. The use of each reserve will be reported to the IJB at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and where possible plans for replenishment to restore the level of reserves.
  - 3.7 The proposed Renfrewshire IJB Reserves Policy is attached at Appendix 1.
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### **Implications of the Report**

1. **Financial** – The Reserves Policy is a key component of the IJB governance arrangements. It sets out the responsibilities of the IJB and senior officers in relation to the use and governance of IJB reserves.
2. **HR & Organisational Development** – None
3. **Community Planning** – None
4. **Legal** – The IJB is entitled to hold reserves in order to meet the needs of the Health and Social Care Partnership in line with national guidance
5. **Property/Assets** – None
6. **Information Technology** – Managing information and making information available may require ICT input.
7. **Equality & Human Rights** - The recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.
8. **Health & Safety** – None
9. **Procurement** – None
10. **Risk** – Approval of the Reserves Policy will ensure the IJB is entitled in line with the legislation, under Section 106 of the Local Government (Scotland) Act 1973 and background papers to hold reserves which should be accounted for in the IJB's financial accounts.
11. **Privacy Impact** – None. The information to be made available via the Publication Scheme is information which would be disclosed in response to a request under the Freedom of Information (Scotland) Act 2002. This therefore would not include Personal Data as defined by the Data Protection Act 1998.

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**List of Background Papers:**

Local Authority Accounting Panel (LAAP) Bulletin 99 – Local Authority Reserves and Balances

LASAAC Code of Practice on Local Authority Accounting

LASAAC Holding to Account: Using Local Authority Financial Statements

Renfrewshire IJB Financial Regulations

Renfrewshire IJB Financial Governance Manual

Scottish Government, Integrated Resources Advisory Group, Professional Guidance, Advice and Recommendations for Shadow Integration Arrangements version 2

Renfrewshire Council Medium Term Financial Strategy

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**Renfrewshire  
Health & Social Care Partnership**



## **Renfrewshire IJB Reserves Policy**



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## 1. Background

- 1.1 The IJB is entitled to hold reserves in order to meet the needs of the partnership.
- 1.2 Reserves are resources held by an organisation to fund contingencies and / or specific programmes.
- 1.3 Reserves can be usable or unusable:
- 1.4 A usable reserve represents resources which the IJB can use for the delivery of services. Each usable reserve may have different restrictions upon its potential use, dependent upon both legislation and decisions by the IJB. For example resources held in the Capital Receipts Reserve may normally only be used to fund expenditure on assets providing long-term benefits or the repayment of borrowing.
- 1.5 Usable reserves include the following:
- General Fund – this type of reserve has no specific purpose other than, as a contingency fund, to cushion the organisation's finances against any unexpected short term problems in cash flow.
  - Renewal & Repair Fund – this type of reserve is earmarked to renew and/or repair capital items.
  - Capital Fund – this reserve is for the purchase of new capital development or asset purchase.
  - Capital Receipts Reserve – this type of reserve holds the proceeds from the sale of assets and can only be used for those purposes specified in the capital finance and accounting regulations.
  - Capital Grants Unapplied Account – grants and contributions relating to capital and revenue expenditure require to be accounted for and recognised in the comprehensive expenditure and income statement within usable reserves.
- 1.6 Unusable reserves cannot be used to provide services or for day to day running costs. These reserves generally arise from statutory adjustments and the treatment of 'unrealised' changes in the value of assets or liabilities.
- 1.7 Unusable reserves include the following:
- Capital Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which assets are depreciated.
  - Pensions Reserve – this is a specific accounting mechanism used to reconcile the payments made for the year to various statutory pension schemes.
  - Financial Instruments Adjustment Account – this is a specific accounting mechanism used to reconcile the different rates at which gains and losses (such as premiums on the early repayment of debt) are recognised.
  - Revaluation Reserve – this is a reserve that records unrealised gains in the value of property, plant and equipment. (LASAAC Holding to account: using local authority financial statements)
- 1.8 In common with local authorities, the IJB can have reserves within a usable category. As the IJB does not have any capital assets of its own, it can only currently hold two types of reserve – a General Fund and a Renewal and Repair Fund. This position will change if the IJB holds capital assets in future.
- 1.9 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 99 – 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 IJB has the same legal status as a local authority, i.e. a section 106 body under the Local Government (Scotland) 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.

1.10 Budget holders within Renfrewshire Council and NHS GG&C are accountable for all budgets within their control as directed by the IJB in line with the Strategic Plan. The IJB will ensure appropriate arrangements are in place to support good financial management and planning. The IJB must follow the agreed policies, set out in the supporting Financial Governance Manual in relation to reserves. (Renfrewshire IJB Financial Regulations)

1.11 Section 106 of the Local Government (Scotland) Act 1973 as amended, empowers the IJB to hold reserves which must be accounted for in the financial accounts and records of the IJB.

1.12 In line with national guidance and good financial governance, this policy establishes a framework within which decisions will be made regarding the level of reserves held by the IJB and the purposes for which they will be maintained and used. Reserves will be agreed as part of the annual budget setting process and will be reflected in the Strategic Plan and subject to ongoing review dependent on the financial position of the partnership. (Renfrewshire IJB Financial Governance Manual)

1.13 The purpose of this reserve policy is to:

- explain the purpose of holding a reserve;
- identify the principles to be employed by the IJB in assessing the adequacy of the IJB's reserves;
- the role of the Chief Finance Officer with regards to reserves;
- indicate how frequently the reserves will be reviewed; and
- set out arrangements relating to the creation, amendment and use of the reserves and balances.

## 2. Statutory/Regulatory Framework for 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:

### Usable Reserve

General Reserves  
Repair and Renewals Reserves

### Powers

Local Government Scotland Act 1973  
Local Government Scotland Act 1973

2.2 For each earmarked reserve the following should be applied and reported:

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

## 3. Use of Reserves

3.1 Authority for the use of IJB Reserve Funds is delegated to the Chief Finance Officer. The use of each reserve will be reported to the IJB at their next scheduled meeting, accompanied by a description of the analysis and determination of the use of funds and where possible plans for replenishment to restore the level of reserves.

3.2 The Chief Finance Officer is responsible for ensuring that the Reserve Funds is maintained and used only as described in this policy. Upon approval of the use of the funds the Chief Finance Officer will maintain records of the use of funds and plan for replenishment. The Chief Finance

Officer will ensure, where possible, the fund is maintained at a level considered prudent to mitigate financial risk and provide regular reports to the IJB on balances held in the fund.

- 3.3 The Chief Finance Officer will annually discuss what additional risk factors might be considered for the IJB and the impact of budgeting on general reserve levels.
- 3.4 This policy will be reviewed by the Chief Finance Officer every financial year or more frequently if warranted by internal or external events or changes. Changes to the policy will be recommended by the Chief Finance Officer to the IJB.

#### **4. Operation of Reserves**

4.1 For the IJB, reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows;
- a contingency to cushion the impact of unexpected events or emergencies (this also forms part of the general reserves); and
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

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

- funds that are earmarked or set aside for specific purposes. By definition, these reserves retain approved resources that are intended to fund specific commitments at a relevant point in the future. They remain an important mechanism which allows IJB to manage available resources on a flexible basis between financial years and over the medium and longer term, ensuring that the IJB appropriately plans for its financial commitments over the long term and that the application of financial resources are driven by decisions underpinned by best value and which best support the IJB to achieve its strategic objectives. 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.

#### **5. Role of the Chief Finance Officer**

5.1 The Chief Finance Officer is responsible for advising on the targeted optimum levels of reserves the IJB would aim to hold. The IJB, based on this advice, should then approve the appropriate level of reserves as part of the annual budget setting process, depending on the resources available.

## **6. Adequacy of Reserves**

- 6.1 There is no guidance on the minimum level of reserves that should be held. In determining the level of reserves to be held, 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.
- 6.2 In light of the size and scale of the IJB's responsibilities, over the medium term it is proposed that a prudent level of general reserves will depend on the year end position and ability at that time to transfer monies into a reserve for future use. This value of reserves must be reviewed annually as part of the IJB Budget and Strategic Plan; and depending on the financial environment at that time. The level of other earmarked funds will be established as part of the annual financial accounting process.
- 6.3 It is recommended in line with national guidance that if an overspend is forecast on either arm of the operational Integrated Budget, the Chief Officer and the relevant finance officer should agree a recovery plan to balance the overspending budget.
- 6.4 In addition, the IJB may increase the payment to the affected body, by either:
- Utilising an under spend on the other arm of the operational Integrated Budget to reduce the payment to that body; and/or
  - Utilising the balance on the general fund, if available, of the IJB in line with the reserves policy.
- 6.5 If the recovery plan is unsuccessful and there are insufficient reserve funds to meet a year end overspend, then the partners have the option to:
- Make additional one-off payments to the IJB; or
  - Provide additional resources to the IJB which are then recovered in future years, subject to scrutiny of the reasons for the overspend and assurance that there is a plan in place to address this.

## **7. Reporting Framework**

- 7.1 The Chief Finance Officer has a fiduciary duty to ensure proper stewardship of public funds.
- 7.2 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.
- 7.3 As part of the budget report the Chief Finance Officer should state:
- the current value of the Reserve Funds, 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.

## **8. Accounting and Disclosure**

- 8.1 The IJB will present a Movement in Reserves Statement and a description of the purpose of the statement, either in the explanatory fore note or on the face of the statement (or both). The Movement in Reserves Statement shall show, for each classification of reserves:
1. Balance as at the end of the previous reporting period
  2. Surplus or (deficit) on the provision of services
  3. Other comprehensive income and expenditure
  4. Total comprehensive income and expenditure
  5. Net increase or decrease before transfers to other statutory reserves
  6. Transfers to and from other statutory reserves
  7. Increase or (decrease) in year
  8. Balance as at the end of the current reporting period (LASAAC Code of Practice on Local Authority Accounting)

## **9. Risk Sharing**

- 9.1 It is the responsibility of the IJB to identify and address its operational and financial risks and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. The financial risks will be assessed in the context of the IJB's overall approach to risk management.
- 9.2 Part of the management process involves taking appropriate action to mitigate or remove risks, where this is possible. This in turn may lead to a lower level of reserves being required, and it would be appropriate to reduce the levels of balances held where appropriate action to mitigate or remove risks has been successfully undertaken. (LAAP Bulletin 99)
- 9.3 The assessment of risks will include external risks, such as a legislative change, as well as internal risks, for example, the ability to deliver planned efficiency savings.
- 9.4 In line with national guidance, financial risk will be managed through the financial management process and the use of reserves.
- 9.5 In order to assess the adequacy of reserves when setting the budget, the Chief Finance Officer will take account of the strategic, operational and financial risks facing the IJB.