

Report

Reserves Policy Edinburgh Integration Joint Board

20 August 2019

Executive Summary

1. This paper sets out the Reserves Policy of the Integration Joint Board, and describes the purposes for which reserves may be held.

Recommendations

2. The Edinburgh Integration Joint Board is asked to approve the Reserves Policy attached as an appendix to this paper.

Background

3. As the Integration Joint Board has been constituted 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 and is expected to develop a reserves policy.

Main Report

4. In 2019, the Ministerial Strategic Group (MSG) issued a 'Review of Progress with Integration of Health and Social Care' which proposed that all IJBs should have a transparent and prudent reserves policy. This policy should ensure that reserves are identified for a purpose and held against planned expenditure, with timescales identified for their use, or held as a general reserve as a contingency to cushion the impact of unexpected events or emergencies. Reserves must not be built up unnecessarily.
5. To assist local government bodies, including Integration Joint Boards, 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.

Key risks

6. There is a risk that the EIJB's treatment of reserves will not comply with statutory requirements if a prudent and transparent reserves policy is not approved.
7. There is a risk that reserves are held at an inappropriate level if the guidance within the policy is not followed.

Financial implications

8. There are no immediate financial implications arising directly from this report.

Involving people

9. The draft reserves policy has been produced with the support and cooperation of both the Council and NHS Lothian personnel.

Impact on plans of other parties

10. There are no impacts on the plans of other parties arising from this report.

Background reading/references

CIPFA, LAAP Bulletin 99

Ministerial Strategic Group, Review of Progress with Integration of Health and Social Care

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Appendices

Appendix 1

Reserves Policy

Reserves Policy

Edinburgh Integration Joint Board



Purpose of this policy

The Reserves Policy:

- a) outlines the legislative and regulatory framework underpinning the creation, use or assessment of the adequacy of reserves;
- b) identifies the principles to be employed by the IJB in assessing the adequacy of the IJB's reserves; and
- c) indicates how frequently the adequacy of the IJB's balances and reserves will be reviewed.

Context and background

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:

Reserve	Power
General Fund	Local Government Scotland Act 1973

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

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

In addition, the Local Authority Accounting Code of Practice has introduced a number of unusable and technical reserves in line with proper accounting practice which are associated with capital accounting and retirement benefits. These reserves follow specific accounting treatment and do not form part of the general, usable cash reserves. These are unlikely to apply to the Integration Joint Board.

Operation of Reserves

Reserves are established as part of good financial management. These funds are held for three main purposes as follows:

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

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 IJB must also account for unusable reserves. These arise out of compliance with proper accounting practice and legislation, either to store revaluation gains and losses or as adjustment accounts to reconcile accounting requirements driven by reporting standards or statutory requirements. They do not form part of the general reserves as they are not backed by cash resources and therefore cannot be used to support future outgoings.

Role of Chief Finance Officer

Within the existing statutory and regulatory framework, it is the responsibility of chief finance officers to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.

Adequacy of Reserves

There is no guidance on the minimum level of reserves that should be held. CIPFA and the Local Authority Accounting Panel consider that local authorities should establish reserves including the level of those reserves based on the professional judgement of the Chief Finance Officer. In assessing the appropriate level of reserves, the IJB should ensure that the reserves are not only adequate but are also necessary.

In determining the level of general reserves to be held, the Chief Finance Officer must consider the strategic, operational and financial risks facing the IJB over the

medium term, the IJB's overall approach to risk management, and all other relevant local circumstances.

The level of earmarked reserves will be established by the IJB as part of the annual budget process. The level of the contingency reserve will be confirmed by the IJB Chief Financial Officer as part of the year-end accounting processes and will take into consideration the financial environment at that time. The value of reserves will be reviewed annually as part of the IJB's Financial Plan and Strategic Plan.

Reporting Framework

The IJB Chief Finance Officer has a fiduciary duty to ensure proper stewardship of public funds.

The level and utilisation of reserves will be formally approved by the IJB based on the advice of the IJB Chief Finance Officer. To enable the IJB to reach a decision the IJB Chief Finance Officer will clearly state the factors that influenced this advice.

As part of the budget report the Chief Finance Officer should state:

- a) 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;
- b) 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;
- c) an assessment of earmarked reserves and advice on appropriate levels and movements during the year and over the medium term; and
- d) 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.