

Integration Joint Board Reserves Policy

1. Background

- 1.1 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 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.

2. Statutory/Regulatory Framework for Reserves

- 2.1 Local Government bodies may only hold reserves for which there is a statutory or regulatory power to do so. In Scotland, the legislative framework is as follows:

Reserve	Powers
General Fund	Local Government Scotland Act 1973
Repairs and Renewals Fund	Local Government Scotland Act
1975 Insurance Fund	

- 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,
- review timescale to ensure continuing relevance and adequacy.

- 2.3 An example of how the protocol could be applied is outlined at the end of this policy. Note that while within a local authority context all receipts and payments are made via the General Fund, in respect of the Integration Joint Board all receipts and payments will be administered through the ledgers of the respective partners.

In addition, over recent years the Local Authority Accounting Code of Practice has introduced a number of technical reserves in line with proper accounting practice associated with capital accounting and FRS17. These reserves are governed by specific accounting treatment and do not form part of general available reserves.

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. By definition these reserves retain approved resources that are intended to fund specific commitments at a relevant point in the future
- 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 identified earmarked sums. Reserves of this nature can be spent or earmarked at the discretion of the IJB.

4. Role of the Chief Finance Officer

- 4.1 The Chief Finance Officer is responsible for advising on the levels of reserves. The Integration Joint Board, based on this advice, should then approve the appropriate 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 reserve levels the Chief Finance Officer must take account of the strategic, operational and financial risks facing the IJB over the medium term and the Integration Joint Board's overall approach to risk management.
- 5.2 In determining the level of general reserves, the Chief Finance Officer should consider the Integration Joint Board's medium term financial strategy and the overall financial environment. Guidance also recommends that the Chief Finance Officer reviews any earmarked reserves as part of the annual budget process.
- 5.3 In light of the size and scale of the Integration Joint Board's operations, over the longer term it is considered that it would be an aspiration to achieve a level of general reserves which represent approximately 2% of net expenditure. The value of reserves must be reviewed annually as part of the Integration Joint Board's Budget and Service Plan strategy and in light of the financial environment at that time.
- 5.4 The level of other earmarked funds will be established as part of the annual budget process.

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 Integration Joint Board 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 movement 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 medium term financial strategy.
 - an assessment of earmarked reserves and advice on appropriate levels and movements during the year and over the medium term.

Reserves Protocol

1. GENERAL FUND

Purpose of the Reserve

The General Fund of the Integration Joint Board will be utilised to hold balances generated within the Income and Expenditure Account, net of any amounts transferred to the Repairs and Renewals Fund, and the Insurance Fund.

Use of reserve

This represents the general reserve of the Integration Joint Board and is used to manage the financial strategy of the Integration Joint Board. Any use of general fund reserves has to be approved by the Integration Joint Board through the appropriate committee framework.

Management and Control

Management and control is maintained through the established financial management frameworks and review through the year end and budget process.

2. REPAIRS AND RENEWALS FUND

Purpose of the Reserve

To defray expenditure to be incurred from time to time in repairing, maintaining, and renewing any buildings, works, plant, equipment or articles belonging to, or utilised by, the Integration Joint Board.

Use of reserve

This reserve would be used to manage investment in building and equipment..

Management and Control

Management and control is maintained through the established financial management frameworks and review through the year end and budget process.

3. INSURANCE FUND

Purpose of the Reserve

An insurance fund may be operated for the following purposes:

- a. where the Integration Joint Board could have insured against a risk but has not done so, defraying any loss or damage suffered, or expenses incurred, by the Integration Joint Board as a consequence of that risk;
- b. paying premiums on a policy of insurance against a risk.

Use of reserve

This reserve would be used to manage insurance costs over the medium term.

Management and Control

The insurance fund is subject to dedicated accounting rules and procedures as approved by LASAAC (Local Authorities Scotland Accounts Advisory Committee).

The adequacy and relevance of each fund is reviewed by the Chief Finance Officer at each year end and through the budget process. All recommendations for movements in balances will be reported to the Integration Joint Board either through the year-end report or as part of the budget and service plan strategy.

