



Item No. 4

Meeting Date Wednesday 16 November 2016

Glasgow City Integration Joint Board Finance and Audit Committee

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RESERVES POLICY

Purpose of Report:	This report sets out the Reserves Policy of the Integration Joint Board, and describes the purposes for which reserves may be held.
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Recommendations:	<p>The Integration Joint Board Finance and Audit Committee is asked to:</p> <ul style="list-style-type: none">a) approve the Reserves Policy of the Integration Joint Board, and,b) refer this matter to the Integration Joint Board for the purposes of giving direction to the Council in respect of the transfer of any underspend which occurs in 2016/17 within the Integration Joint Board to reserves, in order to mitigate ongoing and future budget pressures.
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Implications for Integration Joint Board:

Financial:	The Integration Joint Board are required to have their own reserves policy. Sets out the framework under which reserves will be held. Requires the Integration Joint Board to direct the council in respect of the transfer of any underspend which occurs in 2016/17 within the Integration Joint Board to reserves, for the purposes of mitigating ongoing and future budget pressures.
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Personnel:	None.
Legal:	The reserves policy related directly to the statutory functions of the Integration Joint Board
Economic Impact:	None.
Sustainability:	None.
Sustainable Procurement and Article 19:	None.
Equalities:	None.
Risk Implications:	
Implications for Glasgow City Council:	The council will be required to implement a direction from the Integration Joint Board in respect of the transfer of any underspend which occurs in 2016/17 within the Integration Joint Board to reserves, for the purposes of mitigating ongoing and future budget pressures.
Implications for NHS Greater Glasgow & Clyde:	None.

1. Introduction

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

2. Background

- 2.1 As the 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.
- 2.2 Reserves require to be considered and managed to provide security against unexpected cost pressures and aid financial stability. To assist in this regard, The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance in the form of 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.

3. Utilisation of Reserves

- 3.1 The Chief Officer, Finance and Resources is responsible for determining the appropriate accounting policies of the Integration Joint Board, and this includes its policy in relation to the holding and use of reserves. This policy will set out the level of reserves required and their purpose.
- 3.2 The Integration Joint Board will allocate the resources it receives from the partner Health Board and Local Authority in line with the Strategic Plan. In doing this it will be able to use its power to hold reserves so that in some years it may plan for a contribution to build up reserve balances, in others to break even, or to use a contribution from reserves in line with the reserve policy. This will be integral to the medium term rolling financial plan. The Integration Joint Board may also build up reserves year on year as a result of unanticipated underspends.
- 3.3 It is important for the long term financial stability of both the Integration Joint Board and of the parent bodies that sufficient usable funds are held in reserve to manage unanticipated pressures from year to year. Similarly, it is also important that in year funding available for specific projects and government priorities is able to be earmarked and carried forward into the following financial year, either in whole or in part, to allow for the spend to be committed and managed in a way which represents best value for the Integration Joint Board in its achievement of the national outcomes.
- 3.4 Both usable and unusable reserves should be accounted for in the accounts of the Integration Joint Board.
- 3.5 It is recommended that any underspend which occurs in 2016/17 within the Integration Joint Board be transferred to reserves for the purposes of mitigating ongoing and future budget pressures.
- 3.6 The proposed Reserves Policy of the Integration Joint Board is attached at Appendix 1.

4. Recommendations

- 4.1 The Integration Joint Board Finance and Audit Committee is asked to:
 - a) approve the Reserves Policy of the Integration Joint Board, and,
 - b) refer this matter to the Integration Joint Board for the purposes of giving direction to the Council in respect of the transfer of any underspend which occurs in 2016/17 within the Integration Joint Board to reserves, for the purposes of mitigating ongoing and future budget pressures.

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,
 - the 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.
- 2.4 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.

4. Role of the Chief Officer, Finance and Resources

4.1 The Chief Officer, Finance and Resources 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 Officer, Finance and Resources 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 Officer, Finance and Resources should consider the Integration Joint Board's medium term financial strategy and the overall financial environment. Guidance also recommends that the Chief Officer, Finance and Resources 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 Officer, Finance and Resources 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 Officer, Finance and Resources. To enable the IJB to reach a decision, the Chief Officer, Finance and Resources should clearly state the factors that influenced this advice.
- 6.3 As part of the budget report the Chief Officer, Finance and Resources 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

Various repairs and renewal funds are used to manage investment in building and equipment across the City.

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

The reserve is 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 Officer, Finance and Resources 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.