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RESERVES POLICY

Introduction

Reserve Funds are established as part of good financial management. The purposes of reserve funds are as:

- a) As a working balance to help cushion the impact of uneven cash flows
- b) As a contingency to cushion the impact of unexpected events or emergencies
- c) As a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities

The Scottish Borders Health and Social Care Partnership Integration Joint Board (IJB) is a legal entity in its own right created by Parliamentary Order following Ministerial approval of the Integration Scheme and has been formally constituted under a body corporate model. The IJB is expected to operate under public sector best practice governance arrangements. The revenue budget for the functions for which the Partnership has responsibility is delegated by Scottish Borders Council and NHS Borders (the Parties) and the Partnership subsequently commissions services from these two partner organisations.

The Scottish Borders Partnership Integration Scheme was approved by Scottish Ministers and became live with effect from 06 February 2016. Section 8.8.1 of the Scheme states that *“in line with (IRAG) guidance, a process for jointly agreeing, reporting and carrying forward any unused balances at the end of the financial year will operate”*.

Within the Scheme, section (8.6.7) on reserves and balances states:

“Where there is a planned underspend in operational budgets arising from specific action by the Integration Joint Board it will be retained by the Integration Joint Board. This underspend may be used to fund additional capacity in-year or, with agreement with the partner organisations, carried forward to fund capacity in subsequent years. . The carry forward will be held in an ear-marked balance within Scottish Borders Council’s general reserve.”

Section 8.6.8 also states that *“Any unplanned underspend will be returned to Borders Health Board or Scottish Borders Council by the Integration Joint Board either in the proportion that individual pressures have been funded or based on which service the savings are related to”*.

This Reserves Strategy should be read in conjunction with the Financial Regulations for the IJB, approved as part of the Partnership’s local Code of Governance on 07 March 2016.

Categorisation of Reserve Funds

There are 3 main categories of reserve fund which are:

- Committed Balances/Carry forwards
- Financial Planning Balances
- Uncommitted balances

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Committed Balances/Carry Forwards

Balances which are essential to the IJB to enable it to meet definite commitments, these will include:

- Funding received from external organisations with spending conditions attached and where expenditure has yet to be incurred or conditions satisfied
- Previous policy decisions of the IJB / Council / NHS Board, i.e. approval to commit the Health and Social Care Partnership to future spend on specific initiatives
- A defined commitment made prior to 31st March where services were not provided (or goods received) prior to the financial year-end

Financial Planning Balances

Financial planning balances may be held by the IJB to plan ahead to meet the cost of potential commitments which may occur in the short to medium term. Such balances can be held to fund capacity within service priorities as set out in the Strategic Plan.

These balances may be generated through specific management action during the financial year or at the financial year-end following a review of the Partnership's final outturn position by the Chief Officer in conjunction with the Chief Financial Officer of the Partnership.

Where additional expenditure / reduced income offset against financial planning balances is of a recurring nature the Chief Officer and CFO should ensure a plan is established to enable the commitment to be financed in subsequent financial years.

Such balances need to be agreed in advance with the Director of Finance (NHS Borders) and the Chief Finance Officer (section 95) of Scottish Borders Council, to confirm that they should not be considered as windfall. Where there is a planned underspend in operational budgets arising from specific action by the Integration Joint Board it will be retained by the Integration Joint Board. This underspend may be used to fund additional capacity in-year or, with agreement with the partner organisations, carried forward to fund capacity in subsequent years. . The carry forward will be held in an ear-marked balance within Scottish Borders Council's general reserve. If an underspend arises from a material error in the assumptions made to determine the initial budget, the methodology of the payment may need to be recalculated using the revised assumptions. Any unplanned underspend will be returned to Borders Health Board or Scottish Borders Council by the Integration Joint Board either in the proportion that individual pressures have been funded or based on which service the savings are related to.

Uncommitted Balances

Previously, balances may have been earmarked for a specific purpose which no longer exists and therefore the balances remain uncommitted. These should be subject to annual review by the IJB.

Types of Reserves

Three main types of reserve may be held by the IJB if required:

- General Fund (earmarked and general)
- Repairs and Renewal

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- Insurance

At present, it is expected that only a general fund reserve will be required within the Scottish Borders Partnership, which can be used to manage the financial strategy of the IJB. Only a small element of the budgets for premises-related costs are currently delegated to the IJB and as a result the potential requirement to defray expenditure on repairing or maintaining property-related assets is low. Similarly, no specific separate insurance arrangements have yet been put in place for the IJB. It is proposed therefore that the two types of reserves that will operate currently are:

- General Fund earmarked: earmarked for specific commitments, primarily uncommitted Integrated Care Fund or social care funding
- General Fund general: general reserve for the carrying of planned IJB underspends to meet unforeseen or identified future IJB financial commitments

Level of Balances Held

CIPFA recommends that the level of reserves which require to be established and carried should be determined by an estimate of the potential impact of identified strategic and operational risks faced by the Partnership. Additionally, it has been stated that within unallocated reserves, balances should be between 2% and 4% of revenue expenditure.

The IJB should therefore, in total, hold no more than 4% of revenue expenditure as reserve balances, although in reality, the actual level is likely to be considerably less given the financial magnitude of the delegated and set-aside budgets. Assessment and quantification of the financial risks to which the Partnership is exposed will play a key role in the determination of acceptable level of reserves.

Where unallocated balances are significantly in excess of this or not identified for future anticipated liabilities or projects, the IJB may consider transfer of the excess to fund specific projects. In the event that the IJB is unable to identify appropriate projects, excess balances may, with IJB approval, transfer to partners in the same proportion as individual parties contribute to joint pressures unless it can be clearly demonstrated that the reserve is directly attributable to an individual partner's contribution.

Per the Scheme of Integration 8.6.2-8.6.3, "where there is a forecast outturn overspend against an element of the operational budget the Chief Officer and the Chief Financial Officer of the Integration Joint Board must agree a recovery plan to balance the overspending budget with the relevant finance officer of the constituent authority. Should the recovery plan be unsuccessful the Integration Joint Board may request that the payment from Borders Health Board and Scottish Borders Council be adjusted, to take account of any revised assumptions. It will be the responsibility of the authority who originally delegated the budget to make the additional payment to cover the shortfall."

This recovery plan will require taking cognisance of any reserves and balances available to the IJB.

Review of Balances

This Scottish Borders Health and Social Care Partnership IJB's Reserves Policy requires the Board to review balances on an annual basis following the external audit of the Statement of



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Accounts to allow examination of the level and detail of balances held. The Reserves Policy will be reviewed annually as part of both the Financial Planning and processes for the IJB, following the closure of the previous year's accounts. This will include the level of both earmarked and unallocated IJB general reserves.

The annual report will provide details of and the reason for retaining existing balances.

Utilisation of Balances

Where a balance has been committed for a specific purpose and expenditure has been incurred or grant conditions met a request should be made to the CFO in order that the balance is drawn down and matched against expenditure incurred. The subsequent Financial Management Report to the IJB will note the IJB's direction of reserves.

In order to demonstrate movement in specific balances it is important that drawdowns are requested even on occasions where the IJB is reporting an in-year underspend.

Where the balance exceeds the expenditure incurred then the remaining balance will be reclassified as an uncommitted balance and treated accordingly.

Financial Management and Financial Reporting Arrangements

The Integration Scheme also states that the IJB will record all financial information in respect of the Integration Joint Board in an integrated database (which is currently being developed), and use this information as the basis for preparing regular, comprehensive reports to the Integration Joint Board. Underpinning this however will be the recording of all financial information in respect of the delivery of functions delegated to the IJB in the financial ledger of the partner which is delivering services on behalf of the IJB. The two key factors influencing this are:

- NHS Boards do not have the facility locally to carry-forward reserves and require the support of Scottish Government Health and Social Care Directorate.
- IJBs have been classified as local authority bodies for the purposes of their annual accounts and committed balances and financial planning balances require to be transferred to Scottish Borders Council for earmarking as part of the closure of accounts process for the IJB.

Paul McMenamin

**Interim Chief Financial Officer
Scottish Borders Health and Social Care Partnership Integration Joint Board**

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