



## RESERVES POLICY

### Background

The Scottish Borders 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 IJB 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). Therefore, it is able to hold reserves.

The Chartered Institute of Public Finance and Accountancy (CIPFA) 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.

Reserves are established as part of good financial management. The purposes of reserves are as:

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

This Reserves Policy should be read in conjunction with the Financial Regulations for the IJB, approved as part of the IJB Code of Governance.

### The Borders Integration Scheme

The Scottish Borders Integration Scheme was approved by Scottish Ministers 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 states:

*“Where there is a planned underspend in operational budgets arising from specific action by the IJB it will be retained by the IJB. 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 states that:

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

*This financial mechanism does not apply to notional funding for set-aside budgets.*



## **Purpose of Reserves Policy**

The purpose of a reserve policy is to:

- outline the legislative and regulatory framework underpinning the creation, use or assessment of the adequacy of reserves;
- identify the principles to be employed by the IJB in assessing the adequacy of the IJB's reserves;
- indicate how frequently the adequacy of the IJB's balances and reserves will be reviewed; and
- set out arrangements relating to the creation, amendment and use of reserves and balances.

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; and
- the review timescale to ensure continuing relevance and adequacy.

Reserves transactions need to be agreed in advance with the Director of Finance (NHS Borders) and the Chief Financial Officer (section 95) of Scottish Borders Council.

## **Types of Reserves**

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

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

At present, it is expected that only a general fund reserve will be required within the Scottish Borders IJB, which can be used to support 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 been required for the IJB.

## **General Fund Reserve**

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 Fund Reserve balance which are required for specific purposes.

Two types of funding will be held in the General Fund reserve:

- General Fund earmarked for specific commitments,
- General Fund general: for the carrying of planned IJB underspends to meet unforeseen or identified future IJB financial requirements.



The General Fund reserves balance comprises three elements:

- a) funds that are earmarked for specific purposes  
These reserves are primarily funded from discrete allocations or funding. Spend from these reserves does not require specific approval from the IJB. The recognition of such funds can be from:
  - future use of funds for a specific purpose, as agreed by the IJB;
  - commitments made under delegated authority by the Chief Officer, which cannot be accrued at the year-end due to not yet being in receipt of the service or goods;
- b) general funds which are not earmarked for specific purposes, but are available to the IJB to deal with unexpected events or emergencies; spend from these reserves will require IJB approval.
- c) general funds held in excess of the target level of identified earmarked sums.  
Reserves of this nature can be spent or earmarked at the discretion of the IJB.

### **General Fund: Earmarked reserves**

Balances which are essential to the IJB to enable it to meet definite commitments 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 to future spend on specific initiatives
- A defined commitment made prior to 31 March where services were not provided (or goods received) prior to the financial year-end.

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

Where there is a planned underspend in operational budgets arising from specific action by the IJB it will be retained by the IJB. 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 in the general reserve.

Where such additional expenditure 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.

If an underspend arises from a material error in the assumptions made to determine the initial budget, it should not be assumed that this unplanned underspend can be retained in reserves, it may need to be returned to Borders Health Board or Scottish Borders Council by the IJB in proportion to the service the underspend relates to.

These balances may be held as earmarked reserves 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 on a non recurring basis within service priorities as set out in the Strategic Plan.

### Reclassification of earmarked balances

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 and any change in classification agreed.

### **Level of Balances Held**

The Integration Scheme states that the Chief Financial Officer is responsible for advising on the targeted optimum levels of reserves that the IJB would aim to hold, known as the prudential target figure. The IJB, based on this advice, should then approve the appropriate reserve strategy as part of the budget process.

This Policy requires the IJB to review balances and reserves strategy on an annual basis as part of the preparation of the Annual Accounts and the Financial Plan. This will involve examination of the level and detail of balances held. This will include both earmarked and unallocated reserves.

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 IJB.

- Within the general reserve, good practice indicates that balances should be between 2% and 3% of revenue expenditure.
- The IJB should, in total, hold no more than 4% of revenue expenditure as reserve balances.
- 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.
- A finance risk assessment will be conducted as part of the financial planning and budget setting process,
- This assessment will inform the level of general reserve to be maintained.

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.

Any financial recovery plan will take account of earmarked and general reserves balances available to the IJB.

### **Managing Funds and Reporting 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 to draw the balance down and match 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 where the IJB is reporting an in-year underspend.

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

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

### **Financial Management and Financial Reporting Arrangements**

The IJB will receive an update on reserves balances and reserves utilised as part of quarterly financial monitoring reports. This will include an update on the finance risk assessment and an assessment of any planned or anticipated changes in reserves;

### **Review of Reserves Policy Document**

This document will be reviewed every four years or earlier if required.

Hazel Robertson

**Chief Financial Officer  
Scottish Borders Integration Joint Board**

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