



**ANGUS INTEGRATION JOINT BOARD**

# **RESERVES POLICY**

**Approved: June 2023**

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## 1. BACKGROUND

To assist local authorities (and similar bodies) in developing a framework for reserves, the Chartered Institute of Public Finance and Accountancy have issued guidance in the form of CIPFA Bulletin 13 Local Authority Reserves and Balances.

<https://www.cipfa.org/policy-and-guidance/cipfa-bulletins/cipfa-bulletin-13-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.

In Scotland, guidance from LASAAC (Local Authority Scotland Accounts Advisory Committee) also requires to be followed - "The Statutory Basis for Accounting for and Disclosing Reserves in Scottish Local Government Bodies (Revised 2021)."

## 2. STATUTORY/REGULATORY FRAMEWORK FOR RESERVES

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

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

Angus IJB's policy is currently only to hold a General Fund Reserve, reflecting the nature of the IJB's remit.

It is generally understood that parts of the General Fund will be ear-marked as ear-marked reserves.

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

- the reason for/purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

2.3 Over recent years the Local Authority Accounting Code of Practice has also 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 the general available reserves.

2.4 The adequacy and relevance of each fund will be reviewed by the Chief Finance Officer at the end of each financial year and through the financial planning process. All movements in balances will be reported to the IJB either through the regular financial reporting or as part of the strategic financial planning process.

## 3. OPERATION OF RESERVES

3.1 Reserves are generally held for three purposes:

- 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 requirements.

3.2 The balance of reserves normally comprises of three elements:

- funds that are earmarked or set aside for specific purposes. 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 balance required for specific purposes.
- contingency 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 the identified earmarked sums. Reserves of this nature can be spent or earmarked at the discretion of the IJB.

3.3 In line with financial reporting guidance for IJB's, and due to IJB's not currently holding cash or having bank accounts, it is anticipated that the funding associated with reserves will be held by one of the IJB's partners on behalf of the IJB and will appear as a debtor balance within the IJB's Financial Accounts supporting any reserve.

#### **4. ROLE OF THE CHIEF FINANCE OFFICER**

4.1 The Chief Finance Officer is responsible for advising on the optimum levels of reserves for the IJB. The IJB, based on this advice, should then approve the appropriate management of reserves, including delegating the management of specific reserves where appropriate, as part of the financial planning process.

#### **5. ADEQUACY OF RESERVES**

5.1 In determining the 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 IJB's overall approach to risk management.

5.2 In determining the level of general reserves, the Chief Finance Officer should consider the IJB's Strategic Plan, the medium-term financial outlook and the overall financial environment. Guidance also recommends the Chief Finance Officer reviews any earmarked reserves as part of the financial planning process and development of the Strategic Financial Plan. Angus IJB should also requires to note the requirements of the IJB's Integration Scheme (2022) and the potential need for IJB Reserves to support the IJB's overall financial position.

5.3 Given the size and scale of the IJB's responsibilities, over the medium term it is considered that it would be an aspiration to achieve a level of contingency general reserves which represents approximately 3.0% of net expenditure. This value of reserves must be reviewed annually as part of the IJB's Budget and Strategic Plan, reviewed in the context of the financial environment at that time and considered in the context of the need to maintain an appropriate level of service delivery for the population in each year. The level of other earmarked funds will be established as part of the annual budget process.

5.4 Should contingency reserves exceed or be forecast to exceed the target level (see 5.3), then the IJB will review the strategic and operational necessity to create other earmarked reserves. In some circumstances, and based on advice from the Chief Officer or Chief Finance Officer, it would be good practice to consider this in conjunction with the IJB's partners. After considering that, the IJB should seek to revert any excess reserves back to the IJB's Partners. This will ensure the IJB does not hold reserves in excess of agreed levels.

#### **6. REPORTING FRAMEWORK**

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

6.2 The level and utilisation of reserves will be formally approved by the IJB 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 regular financial reporting, the Chief Finance Officer should state:

- the current value of general reserves, the movement proposed during the year, 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 IJB's Strategic Plan, the medium term financial outlook and the overall financial management;
- an assessment of earmarked reserves and advice on appropriate levels and movements during the year and over the medium term; and
- if the reserves held are below the optimum levels, that the IJB should be considering actions to meet the target through their budget process noting the need to maintain an appropriate level of service delivery for the population in each year.

## **7. ACCOUNTING AND DISCLOSURE**

- 7.1 Entries within a reserve are specifically restricted to 'contributions to and from the income and expenditure account' with expenditure charged to the service revenue account.

## **8. RESERVES PROTOCOL**

### **8.1 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.
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.