



REPORT TO: HEALTH AND SOCIAL CARE INTEGRATION JOINT BOARD –
25 APRIL 2017

REPORT ON: DUNDEE INTEGRATION JOINT BOARD RESERVES POLICY

REPORT BY: CHIEF FINANCE OFFICER

REPORT NO: DIJ16-2017

1.0 PURPOSE OF REPORT

This report sets out the proposed Reserves Policy for Dundee Integration Joint Board for consideration and approval and describes the purposes for which reserves may be held.

2.0 RECOMMENDATIONS

It is recommended that the Integration Joint Board (IJB):

- 2.1 Notes and approves the proposed Reserves Policy for Dundee Integration Joint Board as outlined in this report

3.0 FINANCIAL IMPLICATIONS

The establishment of Reserves will support the IJB in responding flexibly to a range of financial challenges in future years.

4.0 MAIN TEXT

- 4.1 The Integration Joint Board was created by statute and is classified as a local government body for accounts purposes by the Office of National Statistics (ONS). It is therefore able to hold reserves.

- 4.2 Reserves are required 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.

- 4.3 In the context of an IJB, reserves are generally held to create a contingency to cushion the impact of unexpected events and cost pressures, to form part of a recovery plan as part of the risk sharing arrangements set out within the Integration Scheme and to create a means to building up earmarked reserves to meet known or predicted costs and planned transformation programme.

- 4.4 The purpose of a reserves 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.

- 4.5 The IJB generally utilises its resources in line with the Strategic Plan. The IJB will be able to use its powers to hold reserves so that in some years it may plan for a contribution to build up reserve balances, or use a contribution from reserves in line with the reserve policy. The IJB may build up reserves year on year as a result of unanticipated underspends or the need to ring fence certain funding for specific multi-year commitments.
- 4.6 The proposed Reserves Policy is attached at Appendix 1 and provides the detail to support the governance for creating and holding revenue reserves for the IJB.
- 4.7 The proposed Reserves Policy recommends setting a prudent level of contingency general reserve at 2% of the IJB net expenditure. It is acknowledged that due to the financial constraints on the IJB this will be challenging to deliver in the early years and can only be delivered when the need to maintain an appropriate level of service delivery for the population in each year has been met.
- 4.8 Earmarked Reserves relate to specific funds for specific purposes and will only be used for these purposes, often spanning multiple years. Whilst these reserves are fully committed and therefore not free to use, these too will be regularly monitored. Any change of use, or decisions relating to residual balance will require the approval of the IJB.
- 4.9 In relation to the establishment of a Renewal and Repairs fund, while the IJB currently does not have responsibility for managing buildings it is responsible for various items of equipment for which provision could be made to avoid incurring in year unplanned expenditure. In addition, while there is no current specific need for a separate Insurance Fund, it is deemed appropriate to establish the principles behind such a fund should it be required in the future.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Equality Impact Assessment and Risk Management. There are no equality implications. Any risks associated with the level of reserves held by the IJB will be closely monitored and reported by the Chief Finance Officer as part of the ongoing financial monitoring process.

6.0 CONSULTATIONS

The Chief Officer, Director of Finance - NHS Tayside, Executive Director of Corporate Services - Dundee City Council and the Clerk were consulted in the preparation of this report.

7.0 BACKGROUND PAPERS

None.

Dave Berry
Chief Finance Officer

DATE: 30 March 2017

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 Insurance Fund	Local Government Scotland Act 1975

- 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.

3. 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.

4. Operation of Reserves

- 4.1 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.

5. Role of the Chief Finance Officer

- 5.1 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.

6. Adequacy of Reserves

- 6.1 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.
- 6.2 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.
- 6.3 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 Strategic and Commissioning Plan and in light of the financial environment at that time.
- 6.4 The level of other earmarked funds will be established as part of the annual budget process.

7. Reporting Framework

- 7.1 The Chief Finance Officer has a fiduciary duty to ensure proper stewardship of public funds.
- 7.2 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.
- 7.3 As part of the budget report the Chief Finance Officer should state:
 - the current value of general reserves, the movement proposed 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.

Management and Control

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

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:

- 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;
- 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 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.