

CLACKMANNANSHIRE AND STIRLING INTEGRATION JOINT BOARD RESERVES STRATEGY & POLICY

BACKGROUND

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities and similar bodies 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 key issues to be considered when determining the appropriate level of reserves. The Integration Joint Board (IJB) is classified as a Section 106 body under the Local Government (Scotland) Act 1973 and as such, it can hold reserves that should be accounted for in the financial accounts and records of the IJB.

The purpose of a Reserves Strategy 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 reserves and balances will be reviewed; and
- Set out arrangements relating to the creation, amendment, and use of reserves and balances.

STATUTORY / REGULATORY FRAMEWORK FOR RESERVES

2. Clackmannanshire and Stirling Integration Joint Board (IJB) is a legal entity established 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 day to day running costs of the Partnership is delegated by Clackmannanshire and Stirling Councils and NHS Forth Valley (the Parties to the Integration Scheme) and the IJB subsequently commissions, through the use of Directions, and services from these constituent authorities.

Usable Reserves:

3. In common with local authorities, the IJB can hold reserves within a usable category. Local Government bodies, including IJBs, may only hold usable reserves for which there is a statutory or regulatory power to do so.

The Local Government Scotland Act 1973 includes provision for a General Fund reserve to be created and maintained.

4. NHS Boards are not normally permitted to earmark funding allocations for carry-forward as a matter of course.
5. For each reserve there should be a protocol setting out:
 - The reason for / 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.
6. Updated Financial Regulations for Clackmannanshire and Stirling IJB were formally approved by the IJB on 27 September 2023. A review and update of the Financial Regulations will be undertaken periodically.

The Financial Regulations highlight that legislation under Section 106 of the Local Government (Scotland) Act 1973 empowers the IJB to hold reserves, which should be accounted for in the financial accounts and records of the IJB. This Reserves Strategy should, therefore, be read in conjunction with the Financial Regulations for the IJB, the extant Scheme of Delegation, and the Integration Scheme establishing and governing the IJB.

OPERATION OF RESERVES

7. Reserve funds are established as part of a strong financial management framework. The purposes of reserve funds are as follows:
 - As a working balance to help cushion the impact of uneven cash flows.
 - As a contingency to cushion the impact of unexpected events and emergencies; and
 - As a means of building up funds, often referred to as earmarked reserves to meet known or predicted liabilities including change required to implement strategic plans which may take place over more than one financial year or to manage timing differences between allocation of funding for specific purposes from Scottish Government and expenditure profiles.
8. The balance of the reserve funds normally comprises three elements:

- Funds that are earmarked or set aside for specific purposes. In Scotland, under Local Government accounting rules, the IJB cannot have a separate Earmarked Reserve within the Balance Sheet but can highlight elements of the General Fund Reserve Balance required for specific purposes. The identification of such funds can be highlighted from a number of sources:
 - Future use of funds for a specific purpose, as agreed by the IJB; or
 - Commitments made under delegated authority by the Chief Officer, which cannot be accrued at specific times (e.g. financial year-end) due to not being in receipt of the service or goods.
 - Funds that are not earmarked for specific purposes, but are set aside to deal with unexpected events and emergencies; and
 - Funds held in excess of the target level of reserves and the earmarked sums. Reserves of this nature can be spent or earmarked at the discretion of the IJB.
9. Reserves are created by appropriating sums from the General Fund balance to the Movement in Reserves Statement (MiRS). 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 Chief Finance Officer in order that the balance is drawn down and matched to expenditure incurred and reflected as appropriate in periodic financial reports.
 10. Where the balance exceeds expenditure incurred, the remaining balance will be reclassified as an uncommitted balance and treated accordingly.
 11. The Integration Scheme highlights that where there is a forecast overspend in-year, the Chief Officer and Chief Finance Officer, along with the relevant finance officers and operational manager of the Parties are required to agree a financial recovery plan to achieve financial balance. Such a recovery plan may require cognisance to be taken of any reserves and balances available to the IJB.
 12. Where, in future, leading or co-ordinating partnership arrangements maybe established arrangements will require to be put in place to specify how any overspend after recovery plan actions would be allocated between the two IJBs within Forth Valley.

ROLE OF THE IJB CHIEF FINANCE OFFICER

13. The IJB Chief Finance Officer is responsible for advising on the budgeted optimum levels of balances the IJB should aim to hold (the prudential target). The IJB, based on this advice, should then approve the appropriate reserves strategy as part of the budget process.

LEVEL OF BALANCES HELD

14. There is no guidance on the minimum level of reserves that should be held. In determining the minimum and prudential target for reserves, the Chief Finance Officer is required to 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.

On this basis a minimum contingency or general reserves level of 1% of budgeted expenditure was agreed as part of the IJBs 2023/24 Revenue Budget. This will continue to require to be reviewed annually as an integral element of budget setting.

15. In determining the prudential target, the Chief Finance Officer should consider the IJB's Strategic Commissioning Plan, the medium-term financial outlook and the overall financial environment.

Earmarked reserves should be reviewed as part of the annual budget process and development and/or review of the Strategic Commissioning Plan.

16. In recognition of the scale of the IJB's responsibilities, it is proposed to retain a prudent level of general reserves. The value of general reserves will be reviewed annually as part of the annual revenue budget approval process and development, review and approval of the Strategic Commissioning Plan, taking account of the financial environment at that time. Where it is assumed that the financial environment at the time of setting the budget does not support a prudent level of reserves to be held, this should be reported to the IJB together with an aspirational reserves position. The value of other earmarked funds will be established as part of the annual financial accounting process.

17. While there is no defined level of reserves to be held, a number of organisations, including several IJBs have set a target level of 2%-4% of annual budgeted expenditure. The IJB should therefore continue to aspire to hold 2.5% of annual budgeted expenditure general fund balances (total contingency and earmarked reserves).

In terms of maximum reserves, it is not envisaged the IJB would hold total general fund balances in excess of 4% of budgeted expenditure at any point other than in exceptional circumstances such as an unforeseen windfall or significant unanticipated allocation from Scottish Government late in a financial year.

This clearly needs to be balanced within the wider financial and strategic planning context.

18. The Integration Scheme states that where there is an overspend in the Operational Integrated Budget, the Parties can:
- Make additional one-off payments to the IJB, based on an agreed cost sharing model.
 - Provide additional resources to the IJB which are then recovered in future years, subject to scrutiny of the reasons for the overspend and assurance that there is a plan to address this; or
 - Access the reserves of the IJB to help recover the overspend position.

REVIEW OF BALANCES

19. Clackmannanshire & Stirling IJBs Reserves Strategy requires the Board to review balances on an annual basis following the external audit of the Statement of Accounts to allow members to examine the level and detail of balances held.

The Reserves Strategy will be reviewed annually as part of the revenue budget setting process of the IJB.

FINANCIAL MANAGEMENT AND FINANCIAL REPORTING ARRANGEMENTS

20. The IJB Chief Finance Officer has a fiduciary duty to ensure proper stewardship of public funds.
21. Recording of all financial information in respect of the IJB will be in the financial ledger of the Party which is delivering services on behalf of the IJB.
22. The level of and utilisation of reserves will be formally approved by the IJB based on the advice of the IJB Chief Finance Officer. To enable the IJB to reach a decision on reserves, the Chief Finance Officer should clearly state the factors that influenced this advice.
23. As part of periodic financial reporting to the IJB and committees of the IJB, the IJB Chief Finance Officer will normally confirm
- The current value of general reserves, the movement proposed during the year and the estimated year-end balance.
 - The extent to which balances are being used to fund recurrent expenditure (if any).

- The adequacy of general reserves in light of the IJB's Strategic Commissioning Plan, the medium-term financial outlook and the overall financial environment.
- An assessment of earmarked reserves and advice on appropriate levels and movements during the year and over the medium term; and
- Any actions considered necessary to increase reserves towards the prudential target.

REVIEW OF RESERVES STRATEGY

24. The IJB Reserves Strategy will be subject of review annually (in line with IJB budget approval) by the IJB Chief Finance Officer, and where necessary, proposals for adjustments will be submitted to the IJB for approval.

Date of Review: 21 February 2024

Date of Next Review: By March 2025