

# Reserves Policy

Orkney Integration Joint Board.

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| Approved by. | Orkney Integration Joint Board. |
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The Orkney Integration Joint Board (OIJB) positively promotes the principles of sound corporate governance within all areas of the Board’s affairs. This Reserves Policy is an essential component of the corporate governance of the OIJB.

## 1. Introduction and Observance

1.1. The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament on 25 February 2014 and received Royal assent in April 2014. It establishes the framework for the integration of health and social care in Scotland.

1.2. The OIJB is a legal entity in its own right, created by Parliamentary Order following Ministerial approval of an Integration Scheme. The OIJB was legally established on 06 February 2016.

1.3. To assist local authorities (and similar bodies) in developing a framework for reserves, The Chartered Institute of Public Finance and Accountancy (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. As the OIJB 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), it is able to hold reserves which should be accounted for in the financial accounts and records of the OIJB.

1.4. Within the Integrated Resources Advisory Group Finance Guidance it states that:

“*in-year underspends on either arm of the operational integrated budget should be returned from the Local Authority and Health Board to the Integrated Joint Board and carried forward through the general fund.*

*The exception is for unplanned underspends that arise due to material differences between the assumptions used in setting the payments to the Integration Joint Board and actual events e.g. where the actual savings accruing from the substitution of a branded drug with a generic drug are greater than planned because of the date of the drug coming off patent earlier than assumed when setting the payments to the Integration Joint Board.*

*Unplanned underspends effectively represent overfunding by the Local Authority or Health Board with respect to planned outcomes and should either be: returned to the Local Authority or Health Board in-year through adjustments to their respective contributions to the Integration Joint Boards.”*

1.5. Within the Integration Scheme there is a financial section which states that,

*“Subject to there being no outstanding payments due to the partner bodies, the Board will retain any underspend to build up its own reserves and the Chief Finance Officer will update the reserves policy for the Board as and when required.”*

*“The Board is able to hold reserves. There is an expectation that they will achieve a break-even position each year unless there are clear plans to create/utilise reserves. The Board cannot budget for a position which would result in the reserves moving into a deficit.”*

1.6. The Reserves Policy should be read in conjunction with the Financial Regulations for the OIJB.

1.7. 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 OIJB in assessing the adequacy of the OIJB’s reserves.
* Indicate how frequently the adequacy of the OIJB’s balances and reserves will be reviewed.
* Set out arrangements relating to the creation, amendment and use of reserves and balances.

1.8. In common with Local Authorities, the OIJB can have reserves within a useable category.

## 2. Statutory/Regulatory Framework for Reserves

Usable Reserves.

2.1. Local Government bodies - which includes the OIJB for these purposes - may only hold usable reserves for which there is a statutory or regulatory power to do so. In Scotland, the Local Government Scotland Act 1973 gives such powers.

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.

## 3. Purpose of Reserves

3.1. Reserves are established as part of good financial management. These funds are held for three main purposes as follows:

* A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
* A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves.
* A means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

## 4. Reserve Fund Categories

4.1. These are balances which are essential to the OIJB to enable it to meet definite commitments which include:

* Funds that are earmarked or set aside for specific purposes. In Scotland, under Local Government rules, the OIJB cannot have a separate Earmarked Reserve within the Balance Sheet, but can highlight elements of the General 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 OIJB.
* Commitments made under delegated authority by Chief Officer, which cannot be accrued at specific times (e.g. year end) due to not being in receipt of the service or goods.
* Funds which are not earmarked for specific purposes, but are set aside to deal with unexpected events or emergencies.
* 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 OIJB.

## 5. Adequacy of Reserves

5.1. There is no guidance on the minimum level of reserves that should be held. In determining the prudential target, the Chief Finance Officer must take account of the strategic, operational and financial risks facing the OIJB over the medium term and the OIJB’s overall approach to risk management.

5.2. In determining the prudential target, the Chief Finance Officer should consider the Orkney Health and Social Care Partnership’s Strategic Plan, the medium term financial outlook and overall financial environment. Guidance also recommends that the Chief Finance Officer reviews any specific purpose reserves as part of the annual budget process and development of the Strategic Plan.

5.3. In light of the size and scale of the OIJB’s responsibilities, over the medium term it is proposed that a prudent level of general reserves will represent approximately 2% of net expenditure. This value of reserves must be reviewed annually as part of the OIJB’s Budget and the Strategic Plan; and in light of the financial environment at that time. The level of other specific purpose funds will be established as part of the annual financial accounting process.

## 6. Reporting Framework

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

6.2. The level and utilisation of reserves will be formally approved by the OIJB based on the advice of the Chief Finance Officer. To enable the OIJB to reach a decision, the Chief Finance Officer should clearly state the factors that influenced this advice.

6.3. 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 Strategic Plan, the medium term financial outlook and the overall financial environment.
* An assessment of reserves held for specific purposes and advice on appropriate levels and movements during the year and over the medium term.
* If the reserves held are under the prudential target, that the OIJB should be considering actions to meet the target through their budget process.

## 7. Accounting and Disclosure

7.1. Expenditure should not be charged direct to any reserve. Any movement within Revenue Reserves is accounted for as an appropriation and is transparent. Entries within a reserve are specifically restricted to ‘contributions to and from the revenue account’ with expenditure charged to the service revenue account.