

Agenda Item 9

Review of Financial Regulations and Reserves Policy

Title/Subject: Review of Financial Regulations and Reserves Policy
Meeting: Integration Joint Board Audit Committee
Date: 27 February 2017
Submitted By: Ewan Murray, Chief Finance Officer
Action: For Decision

1. INTRODUCTION

- 1.1 As set out by the Public Bodies (Joint Working) (Scotland) Act 2014 and the supporting guidance from the Integrated Resourcing Advisory Group (IRAG) Integration Joint Boards are required to agree a set of financial regulation to ensure appropriate financial governance arrangements are in place and are regularly reviewed.
- 1.2 As part of these arrangements an appropriate reserves policy and strategy should also be considered and regularly reviewed.

2. RECOMMENDATION

The Audit Committee is asked to

- 2.1. Note that the Chief Finance Officer has performed a review of the Integration Joint Boards Financial Regulations in light of experience to date and does not consider that any substantive changes are required at this point in time.
- 2.2. Consider and recommend the Reserves Policy and Strategy attached at Appendix II for approval by the Integration Joint Board in line with 2017/18 budget setting.
- 2.3 Note that that it good practice that the Financial Regulations and Reserves Policy are reviewed periodically and approve a further review no later than March 2018.

3. BACKGROUND

- 3.1. The Forth Valley wide Finance Workstream developed initial Financial Regulations and a Reserve Policy and Strategy for approval by the Integration Joint Boards taking into account extant national guidance from the Integrated Resourcing Advisory Group.
- 3.2. The Integration Joint Board approved a set of Financial Regulations at its meeting of 24 March 2016

4. FINANCIAL REGULATIONS

- 4.1 The IJB Chief Finance Officer has undertaken a review of the Financial Regulations in light of the experience to date of the Integration Joint Board.
- 4.2 In light of this review no substantive changes are proposed to the Financial Regulations at this point in time.

5. RESERVES POLICY AND STRATEGY

- 5.1 The IJB approved an initial reserves policy and strategy within a wider paper on Financial Governance at its meeting of 5 February 2016.
- 5.2 The IJB Chief Finance Officer has reviewed the current reserves policy in light of experience to date and projected financial position for 2016/17. The proposed amended draft reserves strategy and policy is attached at Appendix II.
- 5.3 It is not envisaged that the Integration Joint Board will hold significant reserves, however, robust financial management and control requires the IJB to give consideration to the holding of General Reserves to provide protection against unforeseen and/or unavoidable costs arising.
- 5.4 As part of the reserves policy a maximum target level for General Reserves of £1.5m is proposed which is approximately 0.75% of the partnership budget.
- 5.5 The reserves policy and strategy will require further consideration as the IJB develops its medium term financial strategy.

Resource Implications

The resources implications associated with the reserves policy and strategy will be considered as part of the IJBs budget setting for 2017/18

Impact on IJB Outcomes and Priorities

The reserves policy and strategy will assist in appropriately managing the financial resources available to deliver the Strategic Plan

Legal & Risk Implications

The requirement for Financial Regulations for the IJB are set out in the Public Bodies (Joint Working) (Scotland) Act 2014 and the supporting guidance from the Integrated Resourcing Advisory Group (IRAG)

Consultation

Not required.

Equalities Assessment

N/A

Approved for Submission by: Chief Finance Officer

Author – Chief Finance Officer

Date: 16 February 2017

List of Background Papers: The papers that may be referred to within the report or previous papers on the same or related subjects.

Financial Governance 5 February 2016

Financial Regulations 24 March 2016

FALKIRK INTEGRATION JOINT BOARD FINANCIAL REGULATIONS

1. DEFINITIONS AND INTERPRETATION

1.1. **“1973 Act”** means the Local Government (Scotland) Act 1973;

“Act” means the Public Bodies (Joint Working) (Scotland) Act 2014;

“Board” means integration Joint Board

“Chief Finance Officer” means the Chief Finance Officer of the Board appointed by the Board in terms of s10 of the Act;

“Integrated Budget” means the Integrated Budget of the Board set in accordance with the provisions of the Integration Scheme

“Integration Joint Board Budget or IJB Budget” means the Integrated Budget as defined above plus the ‘Set-Aside’ budget per the provisions of the Integration Scheme. This includes Partnership Funding including the Integrated Care Fund, Delayed Discharge Fund, Integration Fund and any other external funding for Health and Social Care.

“Set-Aside Budget” means the sum to be set aside and made available by the NHS Board to the Integration Joint Board in respect of those delegated functions which are carried out in a large hospital.

“Integration Scheme” means the Integration Scheme between the Parties approved by the Scottish Ministers

“Directions” means the instruction to carry out functions defined in the Act and Integration Scheme

“Accountable Officer” means the officer personally answerable to the Scottish Parliament in accordance with Section 15 of the Public Finance and Accountability (Scotland) Act 2000. For Health Boards this is the Chief Executive.

“NHS” means Health Board;

“Parties” means the Council and the NHS (and **“Party”** means either of them); and

“Strategic Plan” means the plan which the Board is required to prepare and Implement in relation to the delegated provision of health and social care services to adults in accordance with section 29 of the Act.

- 1.2. Words in these Financial Regulations that are also used in the Board’s other governing documents shall, where possible, have the same meanings as they have in those other governing documents.

2. SCOPE AND OBSERVANCE

- 2.1. The Board is a legal entity in its own right, created by Parliamentary Order, following Ministerial approval of the Integration Scheme. The Parties adopted a ‘body corporate’ arrangement – s1(4)(a) of the Act.
- 2.2. The Board is accountable for the stewardship of public funds and is expected to operate under public sector best practice governance arrangements proportionate to its transactions and responsibilities. Stewardship is a function of management and, therefore, a responsibility placed upon the appointed members and officers of the Board. In particular:-
 - (1) NHS (Financial Provisions) (Scotland) Regulations 1974 require NHS Directors of Finance to design, implement and supervise systems of financial control and NHS circular 1974 (GEN) 88 requires the Director of Finance to:
 - Approve the financial systems;
 - Approve the duties of officers operating these systems; and
 - Maintain a written description of such approved financial systems including a list of specific duties.
 - (2) Section 95 of the 1973 Act requires that every local authority shall made arrangements for the proper administration of its financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs.
- 2.3. Members of the Board have a duty to abide by the highest standards of probity in dealing with financial issues. This is achieved by ensuring everybody is clear about the standards to which they are working and the controls in place to ensure these standards are met.
- 2.4. The key controls and control objectives for financial management standards are:-

- (1) The promotion of the highest standards of financial management by the Board;
 - (2) A monitoring system to review compliance with the financial regulations;
 - (3) Comparisons of actual and forward projection of financial performance with planned/budgeted performance that are reported to the Board; and
 - (4) The Audit Committee of the Board fulfilling its duties under its Terms of Reference.
- 2.5. In all matters to do with the management and administration of the IJB Budget by the Board and its officers exercising such delegated powers as the Board have agreed in this regard, these Financial Regulations will apply in all circumstances.
- 2.6. Prior to any funding being passed by one of the Parties to the Board as part of the Integrated Budget, the Financial Regulations or Standing Financial Instructions of the relevant Party will apply. Similarly, once funding has been approved from the Integrated Budget by the Board and directed by it to the Council or the NHS for the purposes of service delivery, the Standing Financial Instructions or Financial Regulations of the relevant Party will then apply to the directed sum, which will be utilised in accordance with the priorities determined by the Board in its Strategic Plan.

3. FINANCIAL MANAGEMENT

Responsibility of Board

- 3.1. The Integration Scheme sets out the detail of the Integration arrangements agreed between the Parties in accordance with the Act. In relation to financial management it specifies:-
- (1) The functions which are delegated to the Board by the NHS and Council.
 - (2) The financial management arrangements including treatment of budget variances;
 - (3) The reporting arrangements between the Board, the NHS and the Council;

- (4) The method for determining the payment to be made available by the NHS and the Council to the Board; and
 - (5) Giving directions to the NHS and the Council that are designed to ensure resources are spent according to the Strategic Plan.
- 3.2. The Board is responsible for the production of the Strategic Plan, setting out the needs, priorities and services for its population over the medium term (3 years), including:-
 - (1) The payment from the Council
 - (2) The payment from the NHS to the Board
 - (3) The amount set aside by the NHS for delegated services

Responsibility of the Chief Officer

- 3.3. The Chief Officer will discharge his/her duties in respect of the delegated functions by:-
 - (1) Ensuring that the Strategic Plan meets the requirement for economy, efficiency and effectiveness in the use of the Board resources.

Responsibility of the Chief Finance Officer

- 3.4. The Board is required to appoint an officer responsible for its financial administration. This post, known as the Chief Finance Officer, will fulfil a role equivalent of the section 95 officer within the Council.
- 3.5. The Chief Finance Officer will discharge his/her duties in respect of the available resources by:-
 - (1) Establishing financial governance systems for the proper use of the available resources;
 - (2) Ensuring that the Strategic Plan meets the requirement for best value in the use of the Board's resources; and
 - (3) Ensuring that the directions given by the Chief Officer to the NHS and the Council provide for the resources that are allocated in respect of the directions to be spent according to the Strategic Plan. It is the responsibility of the Chief Finance Officer to ensure that the provisions

of the directions enable the Parties to discharge their responsibilities in this respect.

3.6. The responsibilities of the NHS's accountable officer, (the NHS's Chief Executive) and the council's Chief Financial Officer (section 95 officer) are as follows:-

- (1) The NHS's accountable officer and the Council's section 95 officer discharge their responsibility, as it relates to the resources that are delegated to the Board.
- (2) The NHS's Director of Finance and the Chief Financial Officer (section 95 officer) of the Council will provide specific advice and professional support to the Chief Officer to support the production, and when necessary the periodic review of, the Integration Scheme;
- (3) The NHS's Director of Finance and the Chief Financial Officer (section 95 officer) of the Council will provide ongoing support and advice to the Chief Officer in the delivery of operational services within the NHS and the Council.

4. FINANCIAL PLANNING

Strategic Plan

- 4.1. The Board is responsible for the production of the Strategic Plan – setting out the needs, priorities and services for its population over the medium term (3 years). This should include a medium term financial plan for the resources within the scope of the Strategic Plan, incorporating:-
 - (1) The Integrated Budget-aggregate of payments to the Board; and
 - (2) The Set-aside Budget-the amount set aside by the NHS for delegated services.
- 4.2. While the NHS and the Council should provide indicative three year rolling funding allocations to the board to support the Strategic Plan and the medium term financial planning process such as indicative allocations would remain subject to annual approval by all parties.
- 4.3. It is the responsibility of the Chief Officer and the Chief Finance Officer to develop a draft IJB Budget based on the Strategic Plan and to present this to the Parties for consideration and agreement within each Party's budget setting process. The draft budget should take account of such factors as:-

- (1) **Activity Changes:** the impact on resources in respect of increased demand (e.g. demographic pressures and increased prevalence of long term conditions) and for other planned activity changes;
- (2) **Cost inflation:** pay and supplies cost increases;
- (3) **Efficiencies:** all savings (including increased income opportunities and service rationalisations/cessations) should be agreed between the Board and the Council / NHS as part of the annual rolling financial planning process to ensure transparency;
- (4) **Performance on outcomes:** the potential impact of efficiencies on agreed outcomes must be clearly stated and open to discussion and consideration by the Council and the NHS;
- (5) **Legal requirements:** legislation may entail expenditure commitments that should be taken into account in adjusting the amounts to be paid, or set aside, to the Board by the Parties;
- (6) **Transfers to/from the set aside budget for hospital services:** as set out in the Strategic Plan;
- (7) **Adjustments to address equity:** the Council and the NHS may choose to adjust contributions to smooth the variation in weighted capita resource allocations across partnerships; information to support this will be provided by the Information Services Division and the Analytical Services Division.

Limits on Expenditure

- 4.4. No expenditure shall be incurred by the Board unless it has been included within the approved IJB Budget and Strategic Plan, except:-
- (1) Where additional funding has been approved by the NHS and/or the Council and the IJB Budget/Strategic Plan updated appropriately;
 - (2) Where additional funding has been allocated by the Scottish Government following approval of the IJB budget;
 - (3) In emergency situations in terms of any scheme of delegation; and
 - (4) As provided for in paragraph 4.6 below (Virement).

Virement

- 4.5. Virement is defined by CIPFA as "the transfer of an under spend on one budget head to finance additional spending on another budget head, in accordance with an Authority's Financial Regulations". In effect virement is the transfer of budget from one main budget heading (employee costs, supplies and services etc), to another, or a transfer of budget from one

service or department to another. This would also include transfers between the two arms of the budget.

- 4.6. Virement rules are set out in sections 8.8.1, 8.8.2 and 8.8.3 of the IJB Integration Scheme.

- (1) The chief Officer is permitted to transfer resources between the arms of the Integrated Budget which fall within the scope of the Strategic Plan subject to there being no overall increase in net budget, no forward impact on future years and does not breach authorisation levels to be determined in accordance with the Scheme of Delegation.

Scheme of Delegation

- 4.7. A scheme of delegation will be developed to allow the Chief Officer and Chief Finance Officer the appropriate level of authority to discharge their responsibilities.

Budgetary Control

- 4.8. It is the responsibility of the Board Chief Finance Officer, in consultation with the Director of Finance of the NHS and the Chief Financial Officer (section 95 officer) of Council, to agree a consistent basis and timetable for the preparation and reporting of management accounting information. In line with section 8.10.2 of the Integration Scheme this will include quarterly financial reports to the Integration Joint Board.
- 4.9. The Board Chief Finance Officer along with the Director of Finance of the NHS and the Chief Financial Officer (section 95 officer) of the Council shall, put in place a system of budgetary control which will provide the Chief Officer with management accounting information for both arms of the integrated budget and for the IJB budget in aggregate.

Variances

- 4.10. The Integration Scheme specifies how in year over/under spends will be treated. Where it appears that any heading of income or expenditure may vary significantly from that appearing in the Strategic Plan, it shall be the duty of the Chief Officer and the Chief Finance Officer, in conjunction with the NHS's Director of Finance and the Chief Financial Officer (section 95 officer) of the Council, to report in accordance with the appropriate method established for the purpose by the Board, the NHS and the Council, the details of the variance and any remedial action required.

Reports to the Board

- 4.11. All reports to the Board and any committees thereof must specifically identify the extent of any financial implications. These must have been discussed and agreed with the Chief Finance Officer prior to lodging of reports.

Legality of Expenditure

- 4.12. It shall be the duty of the Chief Officer to ensure that no expenditure is incurred, or included within the Strategic Plan, unless it is within the legal powers of the Board. In cases of doubt the Chief Officer should consult the respective legal advisors of the NHS and the Council before incurring expenditure. Expenditure on new service developments, initial contributions to other organisations and responses to new emergency situations which require expenditure, must be clarified as to legality prior to being incurred.

Management of Reserves

- 4.13. Legislation empowers the Board to hold reserves, which should be accounted for in the financial accounts and records of the Board.
- 4.14. As any underspend will be held by the Party holding the respective budget and only adjusted through subsequent allocations from the Board no interest will be credited to the Board for balances held and these will be accounted for within the financial records of the Council.

VAT

- 4.15. HM Revenues and Customs have confirmed that there is no requirement for a separate VAT registration for the Board as it will not be delivering any services within the scope of VAT. This position will require to be kept under review by the Chief Finance Officer should the operational activities of the Board change and a need to register be established.

Procurement/Commissioning of Services

- 4.16. The Public Bodies (Joint Working) (Proceedings, Membership and General Power of Integration Boards) (Scotland) Order 2014 provides that the Board may enter into a contract with any person in relation to the provision to the Board of goods and services for the purpose of carrying out the functions conferred on it by the Act.
- 4.17. As a result of specific VAT and accounting issues associated with the Board contracting directly for the provision of goods and services, the Chief Officer is required to consult with the NHS's Director of Finance and the Chief Financial Officer (section 95 officer) of the Council, and the Chief Finance Officer prior to any direct procurement exercise being undertaken.

Accounting Procedures and Records

- 4.18. All accounting procedures and records of the Board shall be determined by the Chief Finance Officer. These will also be subject to discussion and agreement with the Director of Finance / Chief Financial Officer of the NHS / Council as appropriate.

- 4.19. Legislation provides that the Board is subject to the audit and accounts provision of a body under section 106 of the 1973 Act. This requires audited annual accounts to be prepared with the reporting requirements specified in the relevant legislation and regulations - section 12 of the Local Government in Scotland Act 2003 and regulations under section 105 of the 1973 Act. These will be proportionate to the limited number of transactions of the Board whilst complying with the requirement for transparency and true and fair reporting in the public sector.

Financial Statements of the Board

- 4.20. The reporting requirements for the Board will be as specified in applicable legislation and regulations. Financial statements will be prepared following the Code of Practice on Local Authority Accounting in the UK. Statements will be signed as specified in regulations made under section 105 of the 1973 Act.
- 4.21. The financial statements including the Annual Accounts and associated reporting requirements must be completed to meet the audit and publication timetable specified in regulations. It is the primary responsibility of the Chief Finance Officer to meet these targets and of the Chief Officer to provide any relevant information to ensure that the NHS and the Council meet their respective statutory and publication requirements for the single entity and group accounts.
- 4.22. The Chief Finance Officer shall agree the financial statements production timetable with the external auditors of the Board, the NHS and the Council.

5. INTERNAL AUDIT

Responsibility for Internal Audit

- 5.1. The Board shall establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the allocated resources, but not the amount or sufficiency of the allocated resources. This will include determining who will provide the internal audit service for the Board and nominating a Chief Internal Auditor.
- 5.2. The operational delivery of internal audit services within the NHS and the Council will be contained within their respective and established arrangements.
- 5.3. The Internal Audit Service will undertake its work in compliance with the Public Sector Internal Audit Standards.
- 5.4. On or as close as possible to the start of each financial year, the Board's Chief Internal Auditor will prepare and submit a strategic risk based audit plan

to the Audit Committee for approval. It is recommended this is shared for information with the relevant committee of the NHS and the Council.

- 5.5. The Board's Chief Internal Auditor will submit an annual audit report of the Internal Audit function to the Chief Officer and the Audit Committee indicating the extent of audit cover achieved and providing a summary of audit activity during the year. As a minimum the annual audit report and Chief Internal Auditor's opinion will also be reported to the audit committees of the NHS Board and the Council.

Authority of Audit

- 5.6. The Board's Chief Internal Auditor or their authorised representatives shall have authority, on production of identification, to:-
- (1) Obtain entry at all reasonable times to any premises or land used or operated by the Board;
 - (2) have access to all systems, records, documents and correspondence relating to any financial and other transactions of the Board; and
 - (3) Require and receive such explanations as are necessary concerning any matter under examination.

6. RISK MANAGEMENT AND INSURANCE

Responsibility for Insurance and Risk

- 6.1. The Board shall make appropriate insurance arrangements for all activities of the Board in accordance with the risk management strategy.
- 6.2. The Chief Officer shall arrange, taking such specialist advice as may be necessary, that adequate insurance cover is obtained for all normal insurable risks arising from the activities of the Board and for which it is the general custom to ensure. This will include the provision of appropriate insurance in respect of members of the Board acting in a decision making capacity.

- 6.3. The Board has become a member of the Scottish Government Clinical Negligence and Other Risks Scheme (CNORIS) - a risk transfer and financing scheme. The Chief Officer and the Chief Finance Officer will review the requirement for membership of CNORIS on an annual basis.
- 6.4. The NHS's Director of Finance and the Chief Financial Officer (section 95 officer) of the Council will ensure that the Chief Officer has access to professional support and advice in respect of risk management.

7. ECONOMY, EFFICIENCY AND EFFECTIVENESS (BEST VALUE)

- 7.1. The Chief Officer will ensure that arrangements are in place to maintain control and clear public accountability over the public funds delegated to the Board. This will apply in respect of:
- (1) The resources delegated to the Board by the Council and the NHS; and
 - (2) The resources paid to the Council and the NHS by the Board for use as directed and set out in the Strategic Plan.
- 7.2. Best practice principles as set out in the Code of Guidance on Funding External Bodies and Following the Public Pound should be incorporated into the Strategic Plan and the directions made by the Board to allow the Chief Finance Officer, the NHS's accountable officer and the Council's section 95 officer to discharge this duty.
- 7.3. The Board has a duty to put in place proper arrangements for securing Best Value in the use of resources and delivery of services. There shall be a process of strategic planning which shall have full Board member involvement, in order to establish the systematic identification of priorities and realisation of Best Value in the delivery of services. It shall be the responsibility of the Chief Officer to deliver the arrangements put in place to secure Best Value and to co-ordinate policy in regard to ensuring that the Board provides Best Value.
- 7.4. The Chief Officer shall be responsible for ensuring implementation of the strategic planning process. Best Value should cover the areas of human resource and physical resource management, commissioning of services, financial management and policy, performance and service delivery process reviews.

8. OBSERVANCE OF FINANCIAL REGULATIONS

Responsibility of Chief Officer and The Chief Financial Officer

- 8.1. It shall be the duty of the Chief Officer, assisted by the Chief Finance Officer, to ensure that these Financial Regulations are made known to the

appropriate persons within the Board and the Partnership and to ensure that they are adhered to.

Breach of Regulations

- 8.2. A breach of these Financial Regulations must be reported immediately to the Chief Officer, who may then discuss the matter with the NHS's Chief Executive, the Council's Chief Executive or another nominated or authorised person as appropriate to decide what action to take.

Review of Financial Regulations

- 8.3. These Financial Regulations shall be the subject of regular review by the Chief Finance Officer in consultation with the NHS's Director of Finance and the Council's section 95 officer, and where necessary, subsequent adjustments will be submitted to the Board for approval

APPENDIX II

Falkirk Integration Joint Board Reserves Policy and Strategy

1. Introduction

- 1.1 This document outlines the Falkirk Integration Joint Board's strategy for developing and holding financial reserves.
- 1.2 The strategy is linked to the Integration Joint Board's Strategic Plan objectives and medium term financial strategy which highlights the financial risks and challenges facing the Integration Joint Board and its constituent partners beyond the current financial year.
- 1.3 The strategy will be reviewed annually to ensure all financial changes and challenges facing the Integration Joint Board and its constituent partners are taken into account in determining the appropriate level of reserves to hold for the future.

2 Legislative/Regulatory Framework

- 2.1 The Public Bodies (Joint Working) (Scotland) Act 2014 establishes the framework for the integration of health and social care in Scotland. The Act empowers an Integration Joint Board to hold reserves subject to an agreed reserves strategy.
- 2.2 As the Integrated Joint Board is considered a Local Authority body under section 106 of the Local Government (Scotland) Act 1973, all relevant legislative and regulatory principles as applied to local authorities have been deemed equally applicable to the Integration Joint Board.
- 2.3 In Scotland, explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permit local authorities to establish a Capital Fund, alongside a requirement to maintain a General Fund Reserve. Within the General Fund Reserve, local authorities are allowed to earmark elements for specific intended purposes.
- 2.4 Local Authority Accounting Practice Bulletin 99 published in July 2014 provides advice from the Chartered Institute of Public Finance and Accountancy in respect of local authority reserves and balances. The principles and good practice examples contained within the Local Authority Accounting Practice bulletin have been applied in developing the proposed reserves strategy for the Integrated Joint Board.
- 2.5 Legislation also places a range of safeguards that help to prevent local authorities over-committing themselves financially as follows:

- The balanced budget requirement, for Scotland this is derived from Section 93 of the Local Government Finance Act 1992;
- The Chief Finance Officer's duty to report on robustness of estimates and adequacy of reserves when considering the annual budget requirement;
- The Chief Finance Officer's duty to make arrangements for, in addition to having responsibility for, the proper administration of the Integration Joint Board's financial affairs; and
- In line with the "Prudential Code" published by the Chartered Institute of Public Finance and Accountancy, the Chief Finance Officer's duty to have full regard to affordability when making recommendations about future capital programs, including giving due consideration to the level of long term revenue commitments.

Reserve Policies

- 2.6 Pressures on public finances now and over the medium term are intense with the result that the constituent partners do not currently have the capacity to provide extra resources to provide reserves. Therefore, the ability to build up and retain reserves for unforeseen events and circumstances becomes not only difficult, but something that requires careful consideration.
- 2.7 Having the right level of reserves is important. If reserves are very low, there may be little resilience to financial shocks and sustained financial challenges.
- 2.8 Reserves should not be used to fund material levels of ongoing operational costs as they are not a permanent funding solution for this type of expenditure. They may, however, be used for small-scale initiatives which do not impact on the overall reserves strategy.
- 2.9 Reserves should act as a "buffer" to absorb one-off pressures or to enable a short-term bridge to fill a gap until a sustainable funding solution is identified.
- 2.10 Contributions from reserves should only be used to set a balanced budget where reserves have been specifically earmarked for future projects as agreed by the Integration Joint Board.
- 2.11 The level of reserves to be held should be based on an assessment of the likelihood and impact of financial and operational risks.
- 2.12 In addition to maintaining an adequate reserves balance to protect against risks, it may also be necessary to plan for an increase in reserves as a means of meeting Strategic Plan objectives.
- 2.13 Reserves in excess of prudent estimated levels should not be held. This will ensure unnecessary cash balances do not build up which may impact on resources available for operational activities.

3 Types of Reserve

Earmarked Reserves

- 3.1 The purpose of an Earmarked Reserve is to set aside amounts for initiatives that extend beyond one year or as a contingency against a specific situation occurring. Earmarked Reserves will increase through decisions of the Integration Joint Board and will decrease as they are spent on their specific intended purposes.
- 3.2 Once an Earmarked Reserve has been established by the Integration Joint Board, it is the responsibility of the Chief Finance Officer of the Integration Joint Board to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

General Reserves

- 3.3 General Reserves represent non-earmarked elements of Integration Joint Board funds. The main purposes of General Reserves are to operate as a working balance to help manage the impact of uneven cash flows, and to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies.
- 3.4 Given the pressures on public finances now and over the medium term, constituent partners do not currently have the capacity to provide extra resources to provide for General Reserves. As such, the expectation for the foreseeable future is that General Reserves will not be available to the Integration Joint Board. However, ideally, the build-up of a robust level of General Reserves should still be considered as a target within the Integrated Joint Board's medium term financial strategy.

Capital Reserves

- 3.5 Capital reserves represent monies set aside to meet expenditure of a capital nature, as opposed to day to day expenditure on operational activities.

4 Principles of a Risk Based Approach to Reserves

- 4.1 In order to assess the level of reserves, the Chief Finance Officer of the Integration Joint Board should take account of the financial and operational risks facing the Integration Joint Board over the life of the medium term financial strategy. The estimate of these risks should include (but are not limited to):
 - The reasonableness of underlying budget assumptions.
 - Inflationary pressures.
 - Realisation of income targets.

- Trends and current spending patterns.
 - Known future legislative or other regulatory changes.
 - Ability to achieve Strategic Plan objectives.
 - Estimates of likely demand for demand-led budgets.
 - A review of any major risks associated with future years' budgets.
 - The availability of any revenue contingency budget.
 - Discussions and contributions from constituent partners.
- 4.2 The Chief Finance Officer should develop and implement proper arrangements to manage these risks, including adequate and effective systems of internal control.
- 4.3 The Chief Finance Officer's advice on the level of reserves should be set in the context of the Integration Joint Board's risk register and medium term plans, and should not focus exclusively on short-term considerations. Advice should be given on the level of reserves over the lifetime of the medium term financial plan, and should also take account of the expected need for reserves in the longer term.
- 4.4 Part of the risk management process involves taking appropriate action to mitigate or remove risks where this is possible, which in turn may lead to a lower level of reserves being required. A balance will need to be found between maintaining adequate levels of reserves and investing in risk reduction measures.
- 4.5 Whilst it will primarily be the responsibility of the Integration Joint Board and its Chief Finance Officer to maintain a sound financial position, external auditors will regularly express their views on the adequacy of the reserves of the Integration Joint Board for which they carry out the audit function. However, it will not be the responsibility of external auditors to prescribe the optimum or minimum level of reserves to be held.

5 Management of Reserves

Overview

- 5.1 The required levels of Earmarked and General Reserves and their purpose will be agreed as part of the annual budget setting process and reflected in the Strategic Plan agreed by the Integration Joint Board. The constituent partners will be able to review the levels of reserves held by the Integration Joint Board as part of this process.
- 5.2 The level of Earmarked and General Reserves to be maintained may change from year to year depending on any changes to the financial risks facing the Integration Joint Board, and/or resources needed for investment to meet Strategic Plan objectives and budgetary control.
- 5.3 Any in-year call on General Reserves will generally only be approved to meet the cost of unexpected and unforeseen expenditure, or where an opportunity

has arisen which is time limited and/or meets an objective within the Strategic Plan.

- 5.4 The Integration Joint Board will allocate resources it receives from the constituent partners in line with the Strategic Plan. In doing this it will be able to use its power to hold Earmarked and General Reserves, so that in some years it may plan for an underspend to build up reserves, and in others to breakeven, or to use a contribution from reserves in line with the Reserve Policy and Strategy.

Use of Reserves

- 5.5 Decisions on the use of General Reserves should take account of the financial and operational risks that could impact on the Integration Joint Board's position, and should be made in a coordinated and planned way to ensure that best use is made of these resources.
- 5.6 For this reason it is important that any approval to use General Reserves complies with the Integration Joint Board's Reserves Policy and Strategy and a formal procedure facilitates this process.
- 5.7 The application to use General Reserves should be submitted to the Integrated Joint Board for approval and should include as a minimum:
- How the application meets the requirements of the Reserves Policy and Strategy.
 - Why the use of reserves is considered to be the most appropriate form of funding.
 - Whether the use of reserves is required to meet an objective of the Strategic Plan, or is outside of this.
 - Whether the constituent partners been consulted on the proposal to use reserves.
 - A statement from the Integration Joint Board's Chief Finance Officer detailing the current level of reserves and projected year end position.
- 5.8 With reference to section 8 of the Falkirk Integration Scheme, the following in-year scenarios could impact on any General Reserves held by the Integration Joint Board:
- **In-Year Overspend on the Operational Integrated Budget** - Where there is a projected overspend against an element of the operational budget, the Integration Joint Board may decide to increase the payment to the affected body by utilising the balance of the General Reserve of the Integration Joint Board (if available) in line with the Reserves Policy and Strategy.
 - **In-Year Underspend on the Operational Integrated Budget** - Underspends on either arm of the operational integrated budget should be returned from the relevant constituent partner to the Integration Joint Board and carried forward through General Reserves (with the exception

of underspends that arise due to material differences between assumptions used in setting the payments to the Integration Joint Board and actual events).

Reporting Arrangements for Reserves

- 5.9 In terms of reporting on Earmarked and General Reserves, all budget reports to the Integration Joint Board should include from the Chief Finance Officer of the Integration Joint Board (where applicable):
- A statement reporting on the annual review of Earmarked Reserves. The statement should list the various Earmarked Reserves, the purposes for which they are held and provide advice on the appropriate levels. It should also show the estimated opening balances for the year, planned additions/withdrawals and the estimated closing balances.
 - A statement showing the estimated opening General Reserve balance for the year ahead, the addition to/withdrawal from the reserve, and the estimated end of year balance.
 - A statement on the adequacy of Earmarked and General Reserves in respect of the forthcoming financial year and the Integration Joint Board's medium term financial strategy.

6 Level of Reserves

Earmarked Reserves

- 6.1 As mentioned previously, Earmarked reserves provide a means of accumulating funds for use in a later financial year to meet known or planned initiatives. As such, the level of any required Earmarked Reserve is likely to be known with reasonable certainty. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant.

General Reserves

- 6.2 There is generally no prescriptive basis for the level of General Reserves that should be held. The level of General Reserves will depend on the financial risks and challenges facing the Integration Joint Board and its constituent partners, but ideally as a minimum, should be capable of covering all estimated financial risks including contingent liabilities.
- 6.3 However, as mentioned previously, the pressures on public finances now and over the medium term are intense with the result that the constituent partners do not currently have the capacity to provide extra resources to provide for General Reserves. Therefore, the ability to build up and retain General Reserves for unforeseen events and circumstances will be continue to be difficult.
- 6.4 Although there is no requirement or expectation placed on the Integration Joint Board to build up General Reserves, it is still appropriate to at least consider a

prudent “target” level of reserves that may be achievable in the future when financial capacity of the constituent partners allows.

- 6.5 Setting a suitable target level of General Reserves provides its own difficulties. Many of the financial risks impacting on the Integration Joint Board will be difficult to estimate, and the ability to benchmark other Integration Joint Board reserve policies and strategies is currently not yet available.

Capital Reserves

- 6.6 It is currently not anticipated that the Integration Joint Board will require to hold a Capital Reserve.
- 6.7 The Integration Joint Board will identify the specific asset requirements to support the Strategic Plan. Where the Chief Officer of the Integration Joint Board identifies as part of the Strategic Plan new capital investment requirements, a business case should be developed and submitted to all constituent partners to consider.
- 6.8 Options may include one or more of the constituent partners approving the project from its own capital budget or where appropriate, using the hub initiative. The existing procedures in the constituent partners should be used to consider capital bids and business cases.

7 Conclusions

- 7.1 Robust financial management and control requires the Integration Joint Board to give consideration to the holding of General Reserves to provide protection against unforeseen and/or unavoidable costs arising.
- 7.2 Given the pressures however on the finances of the constituent partners currently and over the medium term, the expectation is that General Reserves will not be available to the Integration Joint Board.
- 7.3 Although there is no requirement or expectation placed on the Integration Joint Board to build up General Reserves, it is still appropriate to at least consider a prudent “target” level of reserves that may be achievable in the future when financial capacity of the constituent partners allows.
- 7.4 It is recommended that a maximum target level of General Reserves for the Integration Joint Board be set at a cash value of £1.5 million which is approximately 0.75% of the total partnership budget. This target will be subject to review as part of future annual budget setting processes.
- 7.5 Where appropriate, Earmarked Reserves should also be considered to plan for major expenditure or one-off significant payments.
- 7.6 It is currently not anticipated that the Integration Joint Board will require to hold a Capital Reserve.