

Shetland Islands Integration Joint Board

Reserves Policy

May 2021



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1. Background

- 1.1 In July 2014 CIPFA, through the Local Authority Accounting Panel (LAAP), issued guidance in the form of LAAP bulletin 99 - *Local Authority Reserves and Balances* in order to assist local authorities (and similar organisations) in developing a framework for reserves. The purpose of the bulletin is to provide guidance to local authority Chief Financial Officers on the establishment and maintenance of local authority reserves and balances in the context of a framework, purpose and key issues to consider when determining the appropriate level of reserves.
- 1.2 In October 2005, The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) issued guidance on the accounting treatment, disclosure requirements, and legislative basis for reserves and funds in local authorities in Scotland. There have been a number of changes in the financial reporting framework in the 15 years since the guidance was issued. LASAAC has therefore revised and updated the [guidance](#) in May 2021 to make sure it remains fit for purpose. This is mandatory guidance that applies to Scottish local government bodies and represents proper accounting practices in terms of section 12 of the Local Government in Scotland Act 2003.
- 1.3 The Shetland Integration Joint Board (IJB) is subject to the audit and accounts regulations and legislation of a body under Section 106 of the Local Government (Scotland) Act 1973 and is classified as a local government body for accounts purposes by the Office for National Statistics (ONS). The IJB is able to hold reserves which should be accounted for in the financial accounts of the Board.
- 1.4 The purpose of this 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 its 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 the use of reserves and balances.
- 1.5 In common with local authorities, the IJB can hold reserves within a usable category.

2. Statutory / Regulatory Framework for Reserves

Usable Reserves

- 2.1 Usable reserves can be used to fund the delivery of services, subject to any statutory limitations or other requirements affecting their use. Scottish local government bodies, which includes IJBs, can only create a usable reserve for external financial reporting purposes if they have a specific statutory power to do so. The statutory powers in Scotland are summarised in the following table:

Usable Reserve	Source of Statutory Power	Summary of Permitted Use
General Fund	Section 93 of the Local Government (Scotland) Act 1973 (the 1973 Act) Applicable to all local government bodies	All sums received to be credited to the General Fund and all expenses payable to be charged to it

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

- The reason / purpose of the reserve;
- How the reserve links to the strategic plan,
- How and when the reserve can be used;
- Procedures for the reserves management and control; and
- The timescale for review to ensure continuing relevance and adequacy.

- 2.3 The Shetland IJB will hold a General Fund Reserve which can be split into a Non- Earmarked Reserves and Earmarked Reserves. The former is often referred to as the 'Free Reserve' and is held for unforeseen emergencies and contingencies.

- 2.4 Earmarked Reserves are sums of money retained for future use for a specific purpose or commitments made which cannot be accrued at year end due to not being in receipt of the service or goods.

3. Operation of Reserves

- 3.1 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;
- Create a contingency to cushion the impact of unexpected events or emergencies; and
- Create a means of building up funds, often referred to as Earmarked Reserves, to meet known or predicted liabilities.

3.2 The balance of the 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 Reserve balance required for specific purposes.
- 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.

4. Role of the Chief Financial Officer

4.1 The Chief Financial Officer is responsible for advising on the targeted optimum levels of reserves the IJB would aim to hold (the prudential target). The IJB, based on this advice, should then approve the appropriate reserve strategy as part of the budget process.

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 Financial 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 prudential target, the Chief Financial Officer should consider the IJB's Strategic Plan, the medium term financial outlook and the overall financial environment. Guidance also recommends that the Chief Financial Officer reviews any earmarked reserves as part of the annual budget process and development of the Strategic Plan.

5.3 The Shetland Islands Council and NHS Shetland (The "Partners") have both agreed to fund any overspends on their element of the IJB's operational budget (subject to annual agreement). The financial risk remains with the Partners and therefore reduces the reliance on IJB reserves.

5.4 Capital and assets will continue to sit with the Shetlands Islands Council and NHS Shetland who will maintain inventories of all assets used to support and provide services that are under the direction of the IJB. The IJB will therefore not be subject to unforeseen capital expenditure which also reduces the reliance on IJB reserves.

5.5 In light of the size and scale of the IJB's responsibilities, over the medium term, it is anticipated that it will be difficult to build up reserves on a planned basis.

However, under spends in specific funding streams such as the Scottish Government Additional Funding for Social Care can be retained in the General Fund Reserve.

- 5.6 The retention of under spends relating to the specific funding streams will be agreed between the Shetland Island's Council, NHS Shetland and the IJB as it is recognised that retained under spends comes at the expense of the Partners organisation/s.
- 5.7 Although not critical to the IJB's financial sustainability any reserve balance created will be beneficial in supporting the delivery of the Strategic Plan. A reserve may be used for transformational change projects to accelerate the delivery of the Strategic Plan vision, outcomes, principles and priorities, including shifting of the balance of care from hospital to community settings.

6. Reporting Framework

- 6.1 The Chief Financial 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 IJB based on the advice of the Chief Financial Officer. To enable the IJB to reach a decision, the Chief Financial Officer should clearly state the factors that influenced this advice.
- 6.3 As part of the budget report the Chief Financial Officer should state:
- The current value of General Fund 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 Fund Reserves in light of the IJB's Strategic Plan, the medium term financial outlook and the overall financial environment; and
 - An assessment of earmarked reserves and advice on appropriate levels and movements during the year and over the medium term;

7. Accounting and Disclosure

- 7.1 Expenditure should not be charged direct to any reserve. Any movement within the General Fund 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.

Appendix 1

General Fund Reserve

Protocol:

1 Reason / purpose of the reserve

The General Fund Reserve will comprise Earmarked and Non-Earmarked Reserves.

The Non-Earmarked reserve will be primarily created from under spends in Scottish Government Additional Funding for Social Care. Other under spends can be retained in the General Fund Reserve under the agreement of all Parties.

The Earmarked Reserves will be created from under spends in other specific funding allocations from the Scottish Government. These allocations are received, via NHS Shetland, and are for specific initiatives such as the Primary Care Improvement Fund and Action 15 of the Mental Health Strategy.

The General Fund Reserve will be used at the discretion of the IJB and will support the delivery of the Strategic Plan.

2 How the reserve links to the strategic plan

The General Fund Reserve will be used in line with the Strategic Plan including (but not limited to) the following priorities:

- To support the Vision that people are supported in their community to live longer, healthier lives and reduce health inequalities.
- To improve the wellbeing of service-users, as described in the national health and wellbeing outcomes and integration planning principles.
- To deliver on the Strategic Plan priorities to:
 - Develop a single health and care system - We will have in place seamless services, wrapped around the needs of individuals, their families and communities, which are not restricted by organisational or professional boundaries. Where possible we aim to deliver a 'one stop shop' approach to health and care.
 - Maximise population health and wellbeing – people will be supported to look after and improve their own health and wellbeing, helping them to prevent ill health and live in good health for longer

- Develop a unified primary care service with multi-disciplinary teams working together to respond to the needs of local populations
- Streamline the patient's journey in hospital – we will work to make sure that people get the right care in the right place at the right time by maximising outpatient, ambulatory, day care services and minimising in-patient stays
- Achieve a sustainable financial position by 2023

3 How and when the reserve can be used

The General Fund Reserve will be used in line with this Reserves Policy.

4 Procedures for the reserves management and control

The Chief Financial Officer will provide advice on the appropriateness, affordability and sustainability of any proposed use of the General Fund Reserve.

Non Earmarked Reserves

Non-Earmarked Reserves can be drawn down as follows:

- (a) As part of the annual planning and performance cycle requests can be included within a Direction to either NHS Shetland or Shetland Islands Council. The budget section in the Direction should clearly differentiate between core funding and IJB reserve funding. The Direction must detail the total draw on the reserve over which time period. Reserve funding must not be used to support recurrent costs unless a clear exit strategy is included in the Direction which has been approved by the IJB Chief Financial Officer.
- (b) Requests which fall out with the normal planning and performance timetable can be submitted to the IJB using the Application Form included at Appendix 2. A revised Direction will be issued on approval of the application for use of Reserves.

Earmarked Reserves

Earmarked Reserves can be drawn down with the approval of the Chief Officer and Chief Financial Officer, without IJB approval, to offset expenditure against the specific initiatives directed by the funding allocations.

All agreed movements in reserves will be included in the quarterly financial monitoring reports and the annual accounts of the IJB.

5 The timescale for review to ensure continuing relevance and adequacy.

Annually.

Document History

Version 1 – July 2015

Version 2 – May 2021

Appendix 2

Shetland Islands Health and Social Care Partnership

 NHS Shetland	 Shetland Islands Council
Shetland NHS Board	Shetland Islands Council

Application for use of IJB Non Earmarked Reserve Funding

Applicant Name	
Organisation	
Director Approval (Yes / No)	
CO / CFO Approval (Yes / No)	
IJB Service / Direction (e.g. Mental Health - Please ensure a revised or new Direction is attached to this application)	
Date	
Email	
Date of IJB Meeting	

1. Details of Project / Activity / Service

'Project' Name	
Is 'project' under NHS Programme Management Office or SIC Change Programme (Yes / No)	
If so – 'project' reference Number	

2. IJB Vision and Objectives

Which of the IJB's objectives are relevant to your project / activity / service? (Please tick more than one if necessary)	
People are able to look after and improve their own health and wellbeing and live in good health for longer	
People, including those with disabilities or long term conditions or who are frail are able to live, as far as reasonably	

practicable, independently and at home or in a homely setting in their community	
People who use health and social care services have positive experiences of those services, and have their dignity respected	
Health and social care services are centred on helping to maintain or improve the quality of life of people who use those services	
Health and social care services contribute to reducing health inequalities	
People who provide unpaid care are supported to look after their own health and wellbeing, including to reduce any negative impact of their caring role on their own health and wellbeing	
People using health and social care services are safe from harm	
People who work in health and social care services feel engaged with the work they do and are supported to continuously improve the information, support, care and treatment they provide	
Resources are used effectively and efficiently in the provision of health and social care	

3. Funding Request

Please seek advice from your relevant Finance Team prior to completing this section

What is the balance of this reserve prior to this application (£s)	
Have SIC and/or NHS Finance Teams approved these figures (Yes / No)	
Total cost of project / activity / service (£s)	
IJB General Reserve funding request (£s)	
Has alternative funding been sought (Please provide details)	
Funding required from (start date)	
Funding required to (end date)	
Phasing of funding (if relevant)	

Will any savings be achieved as a result of this 'project' - Please provide details	
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4. Project / Activity / Service

Please provide a brief description of the project / activity / service you are proposing and outline what the IJB General Fund Reserve funding will be used for. Please also explain links to the Strategic Commissioning Plan

5. What are your desired outcomes?

The IJB wishes to see that the funding provided is making a difference in Shetland and is delivering against its aims and objectives

Outcomes	Activities and how they will be measured

6. Exit Strategy

IJB General Fund Reserve funding is time limited - please explain below your plans for the 'project' post IJB General Fund Reserve funding? Will the project cease or will it continue using alternative funding?

For Official Use Only	
IJB Decision (Approved / Rejected)	
Summary of IJB Discussion	
Date of Decision	
Date Applicant informed of decision	
Date SIC and NHS Finance Departments informed of decision	