



MORAY INTEGRATION JOINT BOARD

RESERVES POLICY

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<u>Developed By</u> <u>Chief Financial Officer</u>	<u>Reviewed By</u> <u>Chief Officer</u>	<u>Approved By</u> <u>MIJB</u>
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CONTENTS

Background	3
Statutory/Regulatory Framework for Reserves	3
Operation of Reserves	4
Role of the Chief Financial Officer	4
Adequacy of Reserves	4
Reporting Framework	5
Accounting and Disclosure	5

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 finance 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 The Moray Integration Joint Board (MIJB) 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 MIJB is able to hold reserves which should be accounted for in the financial accounts of the Board.
- 1.3 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 MIJB in assessing the adequacy of the its reserves;
 - indicate how frequently the adequacy of the MIJB's balances and reserves will be reviewed and;
 - Set out arrangements relating to the creation, amendment and the use of reserves and balances.
- 1.4 In common with local authorities, the MIJB can hold reserves within a usable category.

2. Statutory / Regulatory Framework for Reserves

Usable Reserves

- 2.1 Local Government bodies - which includes the MIJB for these purposes - may only hold usable reserves for which there is a statutory or regulatory power to do so. In Scotland, the legislative framework includes:

Usable Reserve - Powers

General Fund - Local Government (Scotland) Act 1973

- 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; and
 - The timescale for review to ensure continuing relevance and adequacy.

3. Operation of Reserves

3.1 Reserves are generally held for three main purposes:

- to create a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- to create a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves; and
- to 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 comprise of the following elements:

- funds that are earmarked or set aside for specific purposes. In Scotland, under Local Government rules, the MIJB 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 MIJB; or
 - commitments made under the authority of the 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; 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 MIJB.

4. Role of the Chief Financial Officer

4.1 The Chief Financial Officer is responsible for advising on the target level of reserves that the MIJB would aim to hold, known as the prudential target figure. The MIJB, 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 MIJB over the medium term and the MIJB's overall approach to risk management.

- 5.2 In determining the prudential target, the Chief Financial Officer should consider the MIJB's Strategic Plan, the medium term financial strategy and the wider financial environment. Guidance also recommends that the Chief Financial Officer reviews any earmarked reserves as part of the annual budget process and continued development of the Strategic Plan.
- 5.3 In light of the size and scale of the MIJB's responsibilities, over the medium term it is proposed to hold a prudent level of general reserves. This value of reserves must be reviewed annually as part of the MIJB's Budget and Strategic Plan; and in light of the financial environment at that time. The level of other earmarked funds will be established as part of the annual financial accounting process.

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 MIJB based on the advice of the Chief Financial Officer. To enable the MIJB 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 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 MIJB's Strategic 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
 - If the reserves held are under the prudential target, that the MIJB 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.