

Reserves Policy

1. Introduction

- 1.1** The Scottish Government has advised that the Transport (Scotland) Act 2019 is to be enacted on 19 March 2020. The Partnership is recommended to approve a Reserves Policy, given the amendments to Regional Transport Partnerships powers included in the Act.
- 1.2** This report is prepared for review by the Partnership's Performance and Audit Committee. A Reserves Policy will be presented to the Partnership Board for approval at its meeting on 20th March 2020.

2. Main Report

- 2.1** The Partnership's functions are determined by the Transport (Scotland) Act 2005. A technical bulletin issued by Audit Scotland in June 2007 indicated that the Transport (Scotland) Act 2005 does not permit Regional Transport Partnership's (RTP's), to generate a surplus or deficit on the General Fund and hence to add to reserves.
- 2.2** This anomaly in the Transport (Scotland) Act 2005 has now been rectified by the Transport (Scotland) Act 2019. RTP's can now hold and contribute to a General Fund reserve.
- 2.3** The Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAAP) Bulletin 99, Local Authority Reserves and Balances, issued in July 2014 provides accounting guidance.
- 2.4** Reserves can be held for three main purposes:
 - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
 - A contingency to cushion the impact of unexpected events and emergencies;
 - A means of building up funds to meet known or predicted liabilities, for example, costs of voluntary early release schemes.
- 2.5** The Local Authority Accounting Panel consider that local authorities (including Joint Boards) should establish reserves and that the level of those reserves should be based on the advice of their chief finance officers (the Treasurer). RTP's should make their own judgements on such matters, considering all the relevant local circumstances. Such circumstances within RTP's will be unique and vary between each RTP, dependant on business needs and risk factors.

- 2.6** In order to assess the adequacy of the unallocated General Fund reserve, it is necessary to take account of the strategic, operational and financial risks facing the Partnership. The assessment should take account of controls in place to manage identified risks together with the overall financial standing of the Partnership and general arrangements to support effective financial risk management. The financial and operational risks facing the Partnership are detailed in the Revenue Budget 2020/21 report elsewhere on this agenda. These are summarised below and re-stated at Appendix 2.
- pay award uplift in excess of budget provision;
 - under-recovery of staff recharges from externally-funded projects;
 - inflation in excess of budget provision;
 - delays in payment of grant funding;
 - increase in Pension Fund contributions;
 - reduction in funding.
- 2.7** Since its establishment as a statutory body in 2006, the Partnership has achieved a financial outturn within the approved budget in each financial year. Where underspends have occurred, constituent councils have approved such underspends be applied to deliver planned projects in the following financial year.
- ### **Proposed Reserves Policy**
- 2.8** Based on the risks described in paragraph 2.6 and at Appendix 2 and the Partnership's record of financial management, it is recommended that the Partnership approves an initial Reserve Policy as follows:
- Maintain a minimum general reserve level of 5% of the approved annual core revenue budget, to mitigate core revenue budget risks; specifically, to provide a contingency to cushion the impact of unexpected financial events;
 - Where slippage occurs on revenue projects, which are included in the approved annual revenue Projects budget, retain within the General Fund reserve an earmarked balance of the underspent Project budget.
 - Reserve balances must be reported and reviewed annually as part of the Partnership's budget setting process. Where any amendments are proposed to be made to reserves or new reserves created during the year, a report must be prepared for the Partnership.
- 2.9** Based on a core revenue budget for 2020/21 of £581,000 proposed in the Revenue Budget 2020/21 report elsewhere on this agenda, the minimum unallocated general reserve would be £29,000.

2.10 It is recommended that the Partnership works towards establishing an unallocated general fund reserve of £29,000, initially through establishment and review of the 2019/20 year-end position.

2.11 The proposed Reserves Policy is appended to this report at appendix 1 and covers 4 main areas:-

- the statutory parameters and professional guidance underpinning the Reserves Policy;
- the reserves held by the Partnership;
- the governance proposals for managing the reserves; and
- the arrangements for review of the Reserves Policy,

Other Reserves

2.12 Other reserves held on the Partnership Balance Sheet, which are not covered by the Reserves Policy are unusable reserves and the Capital Grants Unapplied Account. These unusable reserves reflect the requirements of the Code of Practice of Local Authority Accounting in the United Kingdom. The breakdown of these balances is detailed below:

Unusable Reserves	2018/19 (£000's)	Detail
Capital Adjustment Account	352	Non-cash reserve, that absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.
Revaluation Reserve	0	Non-cash reserve, which accounts for any gains and losses made when revaluing its property, plant and equipment and intangible assets.
Pensions Reserve	(867)	Non-cash reserve, which absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.
Accumulated Absences Account	(6)	Non-cash reserve, which absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year (e.g. annual leave entitlement carried forward at 31 March).
Total Unusable	(521)	

2.13 The Capital Grants Unapplied Account is comprised of capital grants received, but not yet utilised. The Partnership had no Unapplied Capital Grants at 31st March 2019.

3 Recommendation

3.1 It is recommended that the Performance and Audit Committee note this report.

4 Background Reading/External References

4.1 Local Authority Reserves and Balances (LAAP Bulletin 99) CIPFA Local Authority Accounting Panel, July 2014

Hugh Dunn
Treasurer
6th March 2020

Appendix	Appendix 1 – Reserves Policy
	Appendix 2 – Risk Assessment
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Policy Implications	The proposed Reserves Policy is detailed at Appendix 1.
Financial Implications	Following implementation of the Transport (Scotland) Act 2019, the Partnership has powers to establish a usable General Fund reserve.
Equalities Implications	There are no equality implications arising as a result of this report.
Climate Change Implications	There are no climate change implications arising as a result of this report.

South East Scotland Transport Partnership (SEStran) - Reserves Policy

1. Introduction

- 1.1 It is best practice that the Partnership has a documented and approved Reserves Policy.
- 1.2 Local Authority Accounting Practice (LAAP) Bulletin 99 published in July 2014 provides advice from the Chartered Institute of Public Finance and Accountancy (CIPFA) in respect of Local Authority Reserves and Balances. This guidance applies to the Partnership.
- 1.3 This Policy reflects the key messages from the LAAP Bulletin and also outlines the practical application.

2. LAAP Bulletin 99 – Main Messages

- 2.1 In Scotland there are explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permitting Local Authorities to maintain a General Fund Reserve. These powers extend to the Partnership.
- 2.2 Within the General Fund Reserve, organisations are allowed to create specific funds earmarked for specific purposes, which are called earmarked reserves.
- 2.3 It is the duty of the Chief Finance Officer (Treasurer) to report on the robustness of estimates and adequacy of reserves as part of their statutory duty. This requirement also needs to take account of the requirements of CIPFA's Prudential Code in respect of affordability when making recommendations about any Capital Programme plans.
- 2.4 The LAAP Bulletin makes it clear it is not the responsibility of External Auditors to prescribe the optimum or minimum level of reserves for organisations.
- 2.5 Whilst not prescribing a generally acceptable minimal level of reserves the LAAP Bulletin makes it clear that reserves should not be held without a clear purpose. This purpose however does include "a contingency to cushion the impact of unexpected events or emergencies".
- 2.6 In the case of Earmarked Reserves there should be a clear protocol setting out the purpose of the reserve, how and when the reserve can be used and a process for review of the reserve to ensure continuing relevance and adequacy.
- 2.7 The LAAP Bulletin concludes that "it is not normally prudent for reserves to be deployed to finance recurrent expenditure" and "where such action is taken it should be made explicit and an explanation given as to how such expenditure will be funded in the medium to long term".

3 General Fund Reserve Operated by the Partnership

- 3.1 The General Fund Reserve is split between earmarked and non-earmarked reserves. As the name suggests the earmarked reserves are held for a specific purpose, but there is no restriction on whether the funds are spent on capital or revenue. The non-earmarked reserve is the Partnership's true general reserve

and is held as an organisational contingency. The Partnership's non-earmarked reserve is targeted to be held at 5% of approved core revenue budget expenditure.

4. Governance of Reserves

4.1 It is important that there is clarity on the rules and responsibilities in respect of the governance of the Partnership's Reserves. The governance arrangements are:

4.1.1 Balances – The non-earmarked General Fund balance will be held at a minimum of 5% of approved core budget expenditure. Earmarked General Fund balances to be held at approved levels varied for any draws and additions. Balances will be reviewed annually as part of the budget setting process.

4.1.2 Creation – With the exception of earmarked General Fund reserves all other reserves are statutory. The creation of a new earmarked reserve requires the approval of the Partnership. As a minimum a request to create a new earmarked reserve must include: -

- a description of what the reserve is for;
- the reason that the reserve is required;
- the amount of reserve that is required;
- timescales for the utilisation of the reserve; and
- how the reserve will be funded.

4.1.3 Additions – Where an addition to reserves is planned as part of the budget setting process it must be approved by the Partnership. In year additions to reserves must be approved by the Partnership.

4.1.4 Draws – The utilisation of reserves must be approved by the Partnership as part of the Capital or Revenue budget process. Where the need to utilise a reserve arises in year it must be approved by the Partnership.

4.1.5 Reporting / Review – Reserve balance must be reported / reviewed annually as part of the Partnership's budget setting process. Where any amendments are being made to reserves or new reserves created during the year, a report to the Partnership must include details of all current reserve balances held.

Unapplied Capital Grants are excluded from the above governance arrangements as, although a cash reserve, the fund is simply utilised to account for capital grants between financial years.

5. Review

The Reserves Policy requires to be reviewed and approved by the Partnership within a three-year period of previous approval. The Partnership Director may review the Reserves Policy at any time where a change in the external or internal environment has had or is going to have a significant impact on the policy. Any changes to the Policy must be approved by the Partnership.

Risk Assessment 2020/21

Appendix 2

Risk Description	Existing Controls
Pay awards The proposed budget makes provision for a pay award of up to 3% in 2020/21. An uplift of 1% in pay award equates to an increase of £4,911.	Alignment with Scottish Local Government pay award.
Staff recharges – Externally Funded Projects The proposed budget assumes that £151,000 of staff time can be recharged to externally funded projects. There is a risk this may not be achievable.	Any shortfall in employee cost recharges will be offset by a corresponding reduction in Projects Budget expenditure.
Inflation There is a risk that the proposed budget does not adequately cover price inflation and increasing demand for services.	Allowance made for specific price inflation. Budgets adjusted in line with current cost forecasts.
Delays in payment of grant funding - results in additional short-term borrowing costs.	SEStran grant claims for all projects, including EU funded projects are submitted in compliance with requirements of grant funders processes to ensure minimal delay in payment. Ongoing monitoring of cash flow is undertaken to manage exposure to additional short-term borrowing costs.
Pension Fund Contributions The deficit on the staff pension fund could lead to increases in the employer's pension contribution. The impact of any future legislation changes to public sector pension schemes, following the outcome of the 'McCloud Judgement' may lead to an increase in employer contribution rates.	Following Lothian Pension Fund's Triennial Actuarial Review in 2017, Partnership contribution rates are confirmed to 2020/21.
Funding Reductions Reduction in funding from Scottish Government and/or council requisitions. There is a risk that current levels of staffing cannot be maintained due to funding constraints and that the Partnership will incur staff release costs.	Continue to seek to source external funding. Recruitment control and additional sources of external funding for activities aligned to the Partnership's objectives to supplement resources.