

Reserves Policy - Review

1. Introduction

- 1.1 Section 122 of the Transport (Scotland) Act 2019 was enacted on 19th March 2020, permitting the Partnership to hold and contribute to a General Fund reserve.
- 1.2 The Partnership's [Reserves Policy](#) was approved by use of Emergency Delegated Powers, following cancellation of the Partnership Board meeting on 20th March 2020. The cancellation was due to the Coronavirus Pandemic.
- 1.3 In the report [Internal Audit Assurance](#) to the Performance and Audit Committee meeting of 7th June 2024, it was recommended that the Partnership's Reserves Policy be reviewed and presented to the Partnership meeting of 21st June 2024.

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 did not permit Regional Transport Partnerships (RTP's) to generate a surplus or deficit on the General Fund and hence to add to reserves.
- 2.2 The anomaly in the Transport (Scotland) Act 2005 was rectified by Section 122 of the Transport (Scotland) Act 2019. RTP's are now permitted to hold and contribute to a General Fund reserve.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) Bulletin 13, Local Authority Reserves and Balances, issued in March 2023 provides accounting guidance to update Bulletin 99, Local Authority Reserves and Balances (July 2014).
- 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 – 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, referred to as earmarked reserves to meet known or predicted requirements. Earmarked reserves may be reported separately but remain legally part of the General Fund.
- 2.5 CIPFA considers 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 Since 2020, the Partnership has operated a Reserves 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.

2.7 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.

2.8 The table below shows reserve balances for each year since the establishment of the Reserves Policy in 2020. The Partnership has maintained a minimum unallocated reserve of at least 5% of the Core budget since 31 March 2021. All slippage on Project expenditure has been carried forward to the following financial year in accordance with the Partnership's Reserves Policy.

	5% Reserve Target	Actual Unallocated Reserve	Earmarked Reserve for Project Slippage	Total Usable Partnership Reserves
	£'000	£'000	£'000	£'000
31 March 2020	29	12	177	189
31 March 2021	29	29	105	134
31 March 2022	31	104	58	162
31 March 2023	31	49	159	208
31 March 2024	41	130	168	298

2.9 To assess the adequacy of the unallocated 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 risks identified when setting the Partnership's budget for 2024/25 were detailed in the report to the Partnership meeting of 15th March 2024 [Revenue Budget 2024/25 and Indicative Financial Plan 2025/26](#). These are re-stated at Appendix 2.

Reserves Policy review

2.10 Based on the risks identified at Appendix 2, the Partnership's record of financial management and operation of the current Reserves Policy, it is recommended that the Partnership continues to operate its existing Reserves Policy.

- 2.11** The Partnership has a target unallocated general reserve of £49,000 for 2024/25.
- 2.12** At 31st March 2024, the actual unaudited general reserve is £130,000. This reflects a favourable variance on the Core budget due to staff vacancies during 2023/24.
- 2.13** A further £168,000 has been carried forward to 2024/25 due to project slippage in 2023/24. The Partnership was planning to spend the full Projects budget during 2023/24 until the requirement to deliver a new Scottish Government funded 'People and Place Plan' emerged in December 2023. This necessitated the short-term redeployment of key staff to engage intensively with Transport Scotland and other stakeholders for the remainder of 2023/24. This resulted in the postponement of some project work. Following completion of a recruitment and team restructuring exercise, it is forecast that the slippage will be spent in 2024/25.
- 2.14** The existing Reserves Policy, updated for CIPFA Bulletin 13, Local Authority Reserves and Balances, is stated at Appendix 1 and covers four principal 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.

3 Recommendation

- 3.1** It is recommended that the Partnership approves continuation of the Reserves Policy, as detailed at Appendix 1.

4 Background Reading/External References

- 4.1 [Local Authority Reserves and Balances CIPFA Bulletin 13, March 2023](#)
- 4.2 [Internal Audit Assurance](#) Performance and Audit Committee, 7 June 2024
- 4.3 [Reserves Policy](#) Partnership Board, 20 March 2020
- 4.4 [Revenue Budget 2024/25 and Indicative Financial Plan 2025/26](#) Partnership Board, 15 March 2024

Richard Lloyd-Bithell

Treasurer

21st June 2024

Appendix	Appendix 1 – Reserves Policy Appendix 2 – Risk Assessment
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Policy Implications	The Reserves Policy is detailed at Appendix 1.
Financial Implications	Following implementation of the Transport (Scotland) Act 2019, the Partnership has powers to operate 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 The Chartered Institute of Public Finance and Accountancy (CIPFA) Bulletin 13, Local Authority Reserves and Balances, issued in March 2023 provides accounting guidance, which is applicable to the Partnership.
- 1.3 This Policy reflects the key messages from the CIPFA Bulletin and outlines the practical application.

2. CIPFA Bulletin 13 – 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 can create specific funds earmarked for specific purposes, which are called earmarked reserves.
- 2.3 It is the responsibility of chief finance officers (the Partnership's Treasurer) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.
- 2.4 Whilst not prescribing a generally acceptable minimal level of reserves the CIPFA Bulletin states that reserves should not be held without a clear purpose.
- 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 Bulletin 13 states 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 will vary 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 balances 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.
- 4.2 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

- 5.1 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 Description	Existing Controls
<p>Pay awards The proposed budget makes provision for a pay award of up to 3% in 2024/25. An uplift of 1% in pay award equates to an increase of £6,790.</p>	<p>Alignment with Local Government Pay Policy.</p>
<p>Inflation There is a risk that the indicative budget does not adequately cover price inflation and increasing demand for services.</p>	<p>Allowance made for specific known price inflation. Budgets adjusted in line with current cost forecasts.</p>
<p>Pension Fund Contributions The value of the Partnership’s pension fund was restricted to ‘Nil’ at 31 March 2023, following proper accounting practice. The actual surplus may lead to a decrease in future employer’s pension fund contributions.</p>	<p>Following Lothian Pension Fund’s Triennial Actuarial Review in 2023, Partnership employer pension fund contribution rates are confirmed at 26.8% until 31 March 2027.</p>
<p>Funding Reductions Reduction in funding from Transport Scotland 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.</p>	<p>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.</p>