RESERVES POLICY

DOCUMENT VERSION CONTROL

Date	Author	Version	Status	Reason for Change
20 March 2020	SEStran	1.0	FINAL	Policy adopted
21 June 2024	I. Shaw	1.0	FINAL	Reviewed. No changes.

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 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 can 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 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.

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.