

**TAYSIDE AND CENTRAL SCOTLAND TRANSPORT PARTNERSHIP****15 SEPTEMBER 2020****GENERAL FUND RESERVE****JOINT REPORT BY DIRECTOR AND TREASURER**

This report seeks approval from the Board to operate a General Fund Reserve as outlined in the report following legislative changes.

**1 RECOMMENDATIONS**

1.1 That the Partnership :-

- (i) Approve the Reserves Policy as detailed at Appendix 2;
- (ii) Approves that the Partnership creates a non-earmarked General Fund reserve of £5,000 in the current year.

**2 BACKGROUND**

2.1 It was previously reported to the Board as part of the Unaudited Annual Accounts for 2019/20 (Report RTP/20/22 refers) that section 122 of the Transport (Scotland) Act 2019 came into force on 19 March 2020. The legislation contains provisions that aim to improve the financial administration of Regional Transport Partnerships (RTP's).

**3 DISCUSSION**

- 3.1 Tactran's functions and accounting requirements are determined by the Transport (Scotland) Act 2005. A technical bulletin issued by Audit Scotland in June 2007 confirmed that the Transport (Scotland) Act 2005 did not permit RTP's to generate a surplus or deficit on the General Fund and, therefore, could not hold reserves.
- 3.2 Section 122 of the Transport (Scotland) Act 2019 came into force on 19 March 2020. The Act provides RTP's with additional powers to provide greater flexibility, and now include permission to maintain a General Fund reserve.
- 3.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) Local Authority Accounting Panel (LAAP) issued Bulletin 99 in July 2014. This bulletin provides accounting guidance on Local Authority Reserves and Balances.

- 3.4 Reserves can be held for three main purposes:
- A working balance to help cushion the impact of uneven cashflows and avoid unnecessary temporary borrowing;
  - A contingency to cushion the impact of unexpected events or emergencies;
  - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements.
- 3.5 The Local Authority Accounting Panel consider that local authorities should establish reserves including the level of those reserves based on the advice of their Chief Finance Officer (Treasurer). RTP's should make their own judgements on such matters considering all relevant local circumstances. In assessing the appropriate level of reserves, an RTP will ensure reserves are not only adequate but also necessary.
- 3.6 In order to assess the adequacy and necessity of a General Fund reserve, the strategic, operational and financial risks facing the Partnership need to be considered. This consideration should take into account the controls in place to manage risks and the overall financial standing of the Partnership including financial risk management.
- 3.7 The financial risks facing the Partnership are detailed in Appendix 1 and summarised below:
- Pay award uplift
  - Inflation pressures
  - Delays in grant funding income
  - Increase in pension fund contributions
  - Reduction in funding
- 3.8 Previously, the Partnership has achieved a financial outturn within the approved budget in each financial year. By not having the ability to hold reserves, when an underspend occurred in a financial year, constituent councils have previously approved that the underspend may be applied in future years for the delivery of projects.
- 3.9 Any underspend will now flow to reserves and will be either non-earmarked or earmarked. Non-earmarked reserves will provide a contingency for the funding of unforeseen events or to assist cash flow requirements. It is anticipated that earmarked reserves will mainly relate to the carry forward of funding for the delivery of specific projects.

## Proposed Reserves Policy

3.10 Based on the risks outlined above and detailed in Appendix 1, it is recommended that the Partnership approves an initial Reserve Policy as follows:

- Maintain a minimum non-earmarked general reserve level of 3% of the approved annual core revenue budget, to mitigate core revenue budget risks; specifically, to provide a contingency to the impact of unexpected financial events;
- Where slippage occurs on Regional Transport Strategy (RTS) projects, which are included in the approved annual RTS projects budget, retain within the general fund reserve as an earmarked balance for future RTS projects;
- Reserve balances must be reported and reviewed annually as part of the budget setting process. Where amendments are proposed to be made to reserves or new reserves created during the year, a report must be prepared for the Partnership.

3.11 Based on the Core Revenue budget for 2020/21 of £483,150 (paper RTP 20/15 refers), an indicative minimum non-earmarked general reserve is approximately £15,000.

3.12 It is recommended that the Partnership works towards establishing a non-earmarked general fund reserve of 3% of the Core Revenue budget in each year. It is therefore proposed that £5,000 is transferred to reserves in 2020/21, and, during the budget setting process for 2021/22 and 2022/23 provisions will be made for increasing reserves to the 3% level outlined above.

3.13 The proposed Reserves Policy included at Appendix 2 covers four main areas:

- The statutory parameters and professional guidance underpinning the Reserves Policy;
- The level of reserves to held by the Partnership;
- The governance arrangements for managing the reserves; and
- The review processes of the Reserves Policy.

## **4 CONSULTATIONS**

4.1 There has been no consultation in the preparation of this report.

## **5 RESOURCE IMPLICATIONS**

5.1 There are no direct resource implications as funds held within general reserves are usable.

## **6 EQUALITIES IMPLICATIONS**

- 6.1 This report has been screened for any policy implications in respect of Equality Impact Assessment and no major issues have been identified.

**Mark Speed**  
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### **NOTE**

The following background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (and not containing confidential or exempt information) were relied on to a material extent in preparing this Report.

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

Report to Partnership RTP/20/15, 2020/21 Budget and Programme, 17 March 2020

Report to Partnership RTP/20/22, Draft Unaudited Annual Accounts for 2019/20

## Risk Assessment 2020/21

Risk Description	Existing Controls
<p><b>Pay Award Uplift</b> The budget setting cycle allows for an estimated pay award uplift in each year. The actual pay award can differ from the estimate. An uplift of 1% equates to an increased cost to the partnership in 2020/21 of £3,966.</p>	<p>Alignment with Scottish Local Government pay award.</p>
<p><b>Inflation Pressures</b> There is a risk that budgets do not adequately cover price inflation for goods and services.</p>	<p>Budgets are set according to historical patterns as well as for known increases / decreases in costs of goods and services.</p> <p>Contracts are reviewed at renewal to take advantage of the best price available, whilst ensuring service delivery is not compromised.</p>
<p><b>Delays to grant funding income</b> Tactran completes project work in which it has secured external funding. This funding is often claimed in arrears and as such any delay to this income can cause shortages in cashflow.</p>	<p>Tactran like all organisations must manage its cashflow to ensure it has the funds to cover its outgoings. Monitoring of cashflow is regularly undertaken to manage exposure to liquidity risk and avoid short-term borrowing.</p>
<p><b>Increase in pension fund contributions</b> The deficit on the staff pension fund could lead to increases in the employer's pension contribution.</p> <p>Any future Court judgements or legislative changes which may impact upon public sector pension schemes could also lead to an increase in employer contribution rates.</p> <p>Currently the rate is 17%. If there was to be an increase of 1%, this would lead to an additional cost of £3,088.</p>	<p>Following the Tayside Pension Fund Triennial Review in 2017, the Partnership contribution rate is confirmed for 2020/21. The 2020 review is ongoing and any adjustment to the contribution will take effect from 2021/22.</p>
<p><b>Reduction in funding</b> Potential for reduction in funding from Scottish Government and/or Council requisitions.</p>	<p>Continue to explore external funding opportunities and work collaboratively with other RTP's and public sector bodies and agencies to maximise efficiencies.</p>

## **Tayside and Central Scotland Transport Partnership (Tactran) - Reserves Policy**

### **1. Introduction**

- 1.1 Section 122 of the Transport (Scotland) Act 2019 came into force on 19 March 2020. The Act provides RTP's with the power to maintain a General Fund reserve.
- 1.2 Establishing and maintaining a General Fund reserve will be incorporated into the financial monitoring process and it is therefore considered best practice that the Partnership has a documented and approved Reserves Policy.
- 1.3 The 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. The LAAP guidance has been applied to the Partnership.
- 1.4 The Tactran Reserves Policy reflects key messages from the LAAP Bulletin and outlines their 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. Section 122 of the Transport (Scotland) Act 2019 extends these powers 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 expenditure. 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 between 3% and 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:
- 4.2 Balances – The non-earmarked General Fund balance will be held at a minimum of 3% 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.
- 4.3 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.
- 4.4 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 and proposals will be included within the relevant Budget & Financial Monitoring update report.
- 4.5 Draws – The use of reserves must be approved by the Partnership as part of the process for approving the Core and/or Regional Transport Strategy (RTS) budgets. Use of a reserve arising in-year must be approved by the Partnership, details will be included within the relevant Budget & Financial Monitoring update report.
- 4.6 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 are created during the year, a report to the Partnership must include details of all current reserve balances held.

**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, in conjunction with the Treasurer, 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.