



## Consultation on the Financial Arrangements for RTPs

**Committee** Strategy & Programmes

**Date of meeting** 28 November 2017

**Date of report** 10 November 2017

### Report by Assistant Chief Executive (Business Support)

#### 1. Object of report

To seek the committee's approval to the draft response on a recent consultation on the financial arrangements for RTPs.

#### 2. Background

Members will be aware that since the creation of SPT in 2006 there has been an ongoing issue with regard to the ability of RTPs in Scotland to hold financial reserves and balances. This matter has been reported in the SPT financial Statements each year since 2006/2007 and there has been ongoing and continuous dialogue with Scottish Government to resolve the matter.

SPT inherited previous powers from the former SPTA which has allowed the Partnership to hold and utilise reserves and balances, but not add to them, since 2006. Whilst SPT has utilised former powers combined with temporary accounting solutions to overcome the issue, this has resulted in the long term financial planning of the Partnership to be more complex and places a limitation on the ability of the RTP to properly long term plan from a financial perspective.

CIPFA, the Chartered Institute of Public Finance and Accounting, states clearly that reserves are a vital part of prudential financial management.

#### 3. Outline of proposals

The recent consultation is very much welcomed by SPT and sets out a simple solution allowing SPT to fully utilise robust financial management tools within controlled frameworks. The consultation poses four questions, as outlined below with SPT's draft response.

##### **Q1: Do you think it is necessary to clarify whether a RTP is able to build up, and carryover, a financial reserve from one financial year to the next?**

SPT fully supports the proposed clarification in this matter. The issue arose in the first year of the RTP operation in the late stages of the annual audit process. Audit Scotland at that time expressed an opinion that the legislation did not allow for reserves by virtue of the term "net expenses", although it was recognised that the original intention of the legislation was that RTPs should have the necessary powers to allow them to hold reserves. Reserves and balances are recognised as a key component to a sound financial strategy and long term planning, particularly in organisations which have

significant operations and the need for capital investment and where the level of annual income or grant is not guaranteed.

This statement is supported by the Audit Commission, who have previously stated in their “Striking A Balance” report that reserves are an essential part of good financial management. The level, purpose and planned use of reserves are important factors for elected members to consider in developing medium term financial plans and setting annual budgets.

For SPT, with gross expenditure of approximately £100m per annum, the ability to hold and utilise reserves is an essential element of its financial planning. This provides a framework to minimise disruptions to frontline services and the delivery of infrastructure at times when the level of income and grant has been significantly fluctuating.

Furthermore, the Scottish Government placed an expectation on SPT at the time of the Subway Modernisation programme funding agreement that SPT would also contribute upto £46m over the duration of the works. This involved the creation of a “fund” to allow this without seeking additional funds from the 12 constituent councils.

**Q2: Should there be a limit to the amount of surplus that an RTP may carry forward into the next financial year?**

SPT would not support a limit on the amount that can be carried forward. The activities of the seven RTPs are all significantly different, with significant levels and variations on the funding requirements and operational matters which affect spending.

The funding of RTPs is via the constituent councils and the Scottish Government and therefore, via the Partnership Board all funders consider the level of spend required to fulfil the functions and plans of the organisation. The RTP is required to set out a balanced budget in a similar fashion to each local authority and therefore the consideration of resources required is open and transparent. Applying a limit may also inhibit the ability to plan for a project over the longer term.

A “one size fits all” approach does not compliment the different types of organisations, risks facing them or indeed the ability to adapt to changing financial circumstances. A limit could indeed restrict the abilities of RTPs to be flexible at times when increased funding pressures are being applied from all funders.

**Q3: Should safeguards be provided to limit the financial liability of local authorities towards RTP expenses?**

Safeguards are already in existence through a number of different measures. All RTP Partnership Boards are drawn from the constituent councils with a minority number of non-elected members in which they serve and therefore by default, it is the elected members of these councils who are agreeing the budget of the RTP and the financial plan. All RTP members in considering the financial plans must have due regard to the financial liability it is agreeing to.

The range of current safeguards in place that would prevent an RTP (as it would be for a local authority) from over committing themselves financially, and therefore the liability to the RTP include:

- The legal requirement to produce a balanced budget;
- The legislative requirement (S95 of the Local Government (Scotland) Act 1973) for the RTP to make arrangements for the proper administration of its financial affairs and that

the Chief Financial Officer has responsibility for the administration of those affairs. This

includes the role of advising members of the financial implications of plans, what levels of reserves and balances they consider are necessary and ensuring that proper and robust protocols for using them are in place; and

- The requirement to ensure adherence to the Prudential Code, which is reported twice per annum to each Partnership Board. This Code requires all CFOs to have full regard to the affordability when making recommendations about the Partnerships future capital programme, as well as the level of long term revenue commitments arising from this.

Finally, on safeguards, while it is the primary responsibility of the RTP and its CFO to maintain a sound financial position, external auditors will also confirm that there are no material uncertainties about going concern. While it is not their role to prescribe the optimum or minimum level of reserves or balances held, they will, as part of their wider role external auditors report publicly on the RTPs financial position, including reserves and balances held.

**Q4: The Transport (Scotland) Act 2005 applies only specific local government finance provisions to RTPs. Are there any other local government finance provisions which could usefully be applied to the RTPs?**

Yes. There are explicit statutory powers under Schedule 3 of the Local Government (Scotland) Act 1975 permitting local authorities to establish a “repair and renewal” fund, an insurance fund and a capital fund. Each of these provisions previously applied to the former SPTA, and which permitted the ability to ensure that financial plans to create and importantly maintain infrastructure in a planned basis was undertaken.

The insurance fund also allows the level of self-insurance for an organisation like SPT to be assessed in light of risks and increasing insurance premiums in a managed way.

The creation and use of reserves and balances are very much a key component in the sound financial planning tools of local authorities and should be extended to RTPs to ensure those with significant operational activities can fully utilise the tools available to bring financial stability and safeguard ongoing operations.

Their use is fully controlled and reference should be made to the Local Authority Accounting Panel (LAAP) Bulletin No 99, which is approved by the Local Authority Accounting (Scotland) Standards Committee (LAA(S)SC). This Bulletin applies to all local authorities, joint committees and joint boards in Scotland and to which all CFOs are duty bound to consider.

#### **4. Conclusions**

The proposed resolution of the ongoing issue relating to reserves and balances is very much to be welcomed. Controls exist by virtue of the application of legislation and duties already in place and the role of external scrutiny which is reported publicly.

To cap or limit could inadvertently reduce the ability of RTPs with significant operations to be fully flexible and adaptable to changing financial circumstances.

#### **5. Committee action**

The Committee is recommended to note the draft response to the recent consultation.

## 6. Consequences

Policy consequences	<i>None directly, although if legislation is changed, reserve fund balance policy and protocols will be required.</i>
Legal consequences	<i>Change would be required to existing legislation.</i>
Financial consequences	<i>Would support SPT's financial planning.</i>
Personnel consequences	<i>None directly.</i>
Equalities consequences	<i>None directly.</i>
Risk consequences	<i>Policies and protocols would assist in the management of any risks.</i>

**Name**  
**Title**

**Name**  
**Title**

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