



Updated Reserves Policy

Committee Strategy and Programmes

Date of meeting 07 February 2020

Date of report 05 December 2019

Report by Assistant Chief Executive

1. Object of report

The Partnership is required to update and approve its Reserves Policy following recent amendments to powers included as part of the Transport (Scotland) Act 2019.

2. Background

SPT's functions were determined by the Transport (Scotland) Act 2005, which effectively transferred the functions of Strathclyde Passenger Transport Authority (SPTA) and Executive (SPTE) to the Regional Transport Partnership for the west of Scotland. This resulted in SPT assuming the majority of responsibilities and roles of the former SPTA and SPTE with effect from 1 April 2006 and upon formation of SPT the reserves held by both SPTA and SPTE were transferred to SPT. A technical bulletin, issued by Audit Scotland, in June 2007 suggested that the Transport (Scotland) Act 2005 does not permit RTP's, including SPT, to generate a surplus or deficit on the general fund and hence to add to reserves. Although SPT argued strongly that the need for reserves is a matter of good financial management and did have the powers, SPT complied with the guidance issued by Audit Scotland. The matter has been reported in each financial statement since this time.

The Transport (Scotland) Act 2019 has now rectified the anomaly in the Transport (Scotland) Act 2005 and therefore RTP's can now hold and contribute to reserves. As SPT's powers in relation to reserves are now clear it is imperative that SPT updates its Reserve Policy.

The accounting guidance that SPT draws upon for this policy is CIPFA's Local Authority Accounting Panel (LAAAP) Bulletin 99, Local Authority Reserves and Balances, issued in July 2014 (<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel/laap-bulletins/laap-99>).

3. Current Reserves Held

The current general reserve held by SPT at year end was £11.169m. In addition, although not formally a reserve, SPT has been carrying an amount under Receipts in Advance in the Balance Sheet to create a fund for the Subway, which was £51.283 million in the 2018/19 financial statements, which is in line with the approved business case and subsequent programme updated for Subway Modernisation. When including the statutory Capital Fund

(Capital Receipts Reserve) of £25.983 million the revised useable reserves (excluding the Capital Grants Unapplied Account, £70.988 million) totals £88.435 million.

Due to the issues with reserves SPT consolidated earmarked reserves from the old SPTE / SPTA into the General Fund. It is now prudent and in line with best practice to review and reinstate specific earmarked reserves. In addition to the General Fund Schedule 3 of the Local Government (Scotland) Act 1975 permits the establishment of a Renewal and Repair Fund, and Insurance Fund and a Capital Fund and therefore these have also been accounted for as part of the reserves review. The table below details the proposed revised reserves make up (the figures include an estimate for the further contribution to the Subway Fund) and appendix 1 provides further details on the reserves.

Table 1: Useable Reserves

Description	2018/19 (£000's)	Estimated Additions / (Draw) 2019/20 (£000's)	Revised Balance (£000's)
Earmarked Reserves			
Rolling Stock, Signalling and Associated Equipment Fund	31,283	3,717	35,000
Subway Infrastructure Fund	15,000	5,000	20,000
Guideline Criteria Review Fund	5,000	5,000	10,000
Strategic Bus Routes Fund	2,000	0	2,000
Total Earmarked Reserves	53,283	13,717	67,000
Non-earmarked Fund	6,669	331	7,000
Total General Fund Balance	59,952	14,048	74,000
Capital Fund	25,983	0	25,983
Renewal and Repair Fund	1,500	0	1,500
Insurance Fund	1,000	0	1,000
Total Useable Reserves	88,435	14,048	102,483

The level of reserves and cash balances held by the Partnership has been discussed at length at previous committees and also with SPT's external auditors Scott Moncrief. The overall Subway Modernisation project has driven the level of reserves required to ensure that the Partnership has enough money to fund the project, ensure money is there to fund midlife refurbishments, ensure funds are available to fund increased transitional revenue costs associated with the project implementation and to fund investment in the Subway's aging infrastructure.

4. Other Reserves

Other reserves held on the Partnerships Balance Sheet, which are not covered by the reserves policy are unusable reserves and the Capital Grants Unapplied Account. The breakdown of unapplied capital grants is detailed below: -

Table 2: Other Reserves

Category	Description	2018/19 (£000's)	Description
Unusable	Capital Adjustment Account	148,528	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.
Unusable	Revaluation Reserve	56,119	Non-cash reserve, which accounts for the gains and losses made by SPT when revaluing its property, plant and equipment and intangible assets.
Unusable	Pensions Reserve	-3,245	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.
Unusable	Accumulated Absences Account	-79	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	201,323	

The balance of Unapplied Capital Grants held by SPT at the end of 2018/19 financial year was £70.988 million. The Capital Grants Unapplied Account is comprised of capital grants received, but not yet utilised. The balance within the account has to be utilised in line with the individual grant conditions. The current balance predominantly relates to specific grant for the Subway Modernisation project.

5. Proposed Reserves Policy

The reserves policy is appended to this report at appendix 2 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.

This is the first significant update to the Partnership's reserves policy since 2005 and ensures that the organisations governance arrangements are in line with best practice.

6. Conclusion

Due to the passing of the Transport (Scotland) Act 2019, the Partnership can now add to reserves. In addition, the Partnership can now create specific earmarked reserves and statutory reserves, along with negating the use of Receipts in Advance to account for the Subway Fund. The Partnership's reserves policy has been updated due to the new powers and has been drafted in line with best practice. Although the Act has been amended the new powers granted to RTP's do not come into force until a commencement order has been processed by the Scottish Government. The aim is to have the commencement order fully processed by the 31st of March 2020, but the timescales are tight for meeting this target date. If the timescales are not met SPT's powers in relation to reserves will remain unchanged until the 2020/21 financial year.

7. Committee action

The Committee is recommended to: -

- (a) recommend to the Partnership as part of the 2020/21 financial budget to approve the composition of the reserves held by the Partnership, if the commencement order has been fully processed by the Scottish Government: and
- (b) approve the Reserves Policy appended to this report.

8. Consequences

Policy consequences	<i>The reserves policy is appended to this report.</i>
Legal consequences	<i>All legislation and regulations are adhered to.</i>
Financial consequences	<i>As detailed in the report.</i>
Personnel consequences	<i>None.</i>
Equalities consequences	<i>None.</i>
Risk consequences	<i>As detailed in the report.</i>

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Proposed Reserves Balances

Description	2018/19 (£000's)	Estimated Additions / (Draw) 2019/20 (£000's)	Revised Balance (£000's)	Justification
Earmarked Reserves				
Rolling Stock, Signalling and Associated Equipment Fund	31,283	3,717	35,000	Reserve required to meet SPT's ongoing obligation to fund the overall Subway Modernisation Programme. In addition the new trains, signalling and associated equipment are planned to have significant overhauls over their useful life. SPT will require to spend approx. £7m for the first major overhaul of the new Rolling Stock and Associated Equipment, which takes place approximately 5 years after implementation. It is assumed that the overhauls will become more expensive as years go on. The reserve will cover asset overhauls and contributions to the Subway Modernisation projects and associated work streams. The £35m balance will ensure that the overall project is financially viable and that the new assets are overhauled and maintained to a high standard.
Subway Infrastructure Fund	15,000	5,000	20,000	A full survey of the Subway Tunnels has been undertaken by external consultants, which identified that significant works need to be undertaken to ensure that they continue to be structurally sound. This specific reserve will ensure a sizable contribution to the works that are required.
Guideline Criteria Review Fund / Transport Act Implementation	5,000	5,000	10,000	SPT is currently only part way through the review of its Guideline Criteria for Subsidised Local Bus Services and therefore the financial affect of any changes is unknown. In addition the new powers granted to SPT through the Transport (Scotland) Act 2019, need to be properly assessed and considered. It is also unclear at present what the costs would be to implement any of the new powers. The £10m specific fund is deemed as a prudent sum to earmark as it is likely that the enactment of powers that have never been utilised before will not be without practical and financial challenges.
Strategic Bus Routes Fund	2,000	0	2,000	Fund to be utilised in the event that an unanticipated material change occurs in the market provision or cost in the designated strategic bus routes. The fund would be utilised to cover short term issues only and not to cover contracted revenue spend year on year. The fund equates to approximately 16% of the current Subsidised Bus Budget.
Total Earmarked Reserves	53,283	13,717	67,000	
Non-earmarked balance	6,669	331	7,000	The non earmarked reserve is equal to approximately 3 months of SPT's total operational income.
Total General Fund Balance	59,952	14,048	74,000	
Capital Fund	25,983	0	25,983	Fund is comprised of the sale receipts from previous asset sales.
Renewal & Repairs Fund	1,500	0	1,500	SPT operates Bus Stations, Subway Stations and a maintenance depot, which all require to be maintained and invested in to ensure that they remain to a high standard for the travelling public and staff alike. The £1.5m is a prudent amount to cover any unplanned situations that require funding where there is no other funding source available.
Insurance Fund	1,000	0	1,000	SPT spends approximately £600k each year on various insurance policies. The primary policies are the Property Policy and Employee and Public Liability Policy. The Property Policy carries an excess of £175,000 and the excess on the EL / PL policy is £100,000. Setting the balance of the insurance fund at £1 million is prudent due to the value of the current excesses that are in place and the costs associated with renewing policies on an annual basis.
Total Useable Reserves	88,435	14,048	102,483	

Strathclyde Partnership for Transport Reserves Policy

1.0 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 CIPFA in respect of Local Authority Reserves and Balances. This guidance applies to the Partnership, as the Partnership follows local authority accounting rules.
- 1.3 The following Policy reflects the key messages from the LAAP Bulletin and also outlines the practical application.

2.0 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 establish a Renewal and Repair Fund, an Insurance Fund and Capital Fund alongside a requirement to maintain a General Fund Reserve. These powers extend to the Partnership as well.
- 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 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 the Partnership's future Capital Programme.
- 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".
- 2.7 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.
- 2.8 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"

3.0 Types of Reserves Operated by the Partnership

3.1 General Fund Reserve

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

SPTs true general reserve and is held as an organisational contingency. SPT's non earmarked reserve is targeted to be held at approximately three months of Subway income.

3.2 Repairs and Renewals Fund

The Repairs and Renewals Fund is held to fund expenditure which relates directly to the repairing, maintaining, replacing works of plant, building or equipment. Utilisation of this fund can only be agreed as part of the annual budget process (or capital / revenue amendments).

3.3 Insurance Fund

The Insurance Fund can only be used to fund expenditure directly relating to insurance, including the costs of insurance excesses, premiums and risk management.

3.4 Capital Fund

The Capital Fund can be utilised to fund approved capital expenditure. Utilisation of this fund can only be agreed as part of the annual capital budget process (or capital amendments).

4.0 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 Funds and Reserves. The governance arrangements are: -

- Balances – The non-earmarked general fund balance will be held at approximately 3 months of Subway income. All other 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.
- Creation – With the exception of earmarked reserves all other reserves are statutory. The creation of a new earmarked reserve requires the approval of the Strategy & Programmes Committee. 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.
- 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 Strategy and Programmes Committee.
- 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 Strategy and Programmes Committee and reported to the Partnership.
- Reporting / Review – Reserve balance must be reported / reviewed annually as part of the budget setting process to the Partnership. Any amendments to reserves required following the review, will be proposed as part of the budget setting process. Where any amendments are being made to reserves or new reserves created in year the report to the Strategy and Programmes Committee 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.

5.0 Review

The Reserves Policy requires to be reviewed and approved no less frequently than three yearly by the Strategy and Programmes Committee. The Assistant Chief Executive 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 presented to the Strategy and Programmes Committee with the revised Reserves Policy ultimately being approved by the Partnership.