ABM University Health Board	
Date of Meeting:24th January 2018 **Name of Meeting: Performance and Finance Committee Meeting** **Agenda item: 2d**	
Subject	**Reserves Management**
Prepared by	Samantha Lewis, Assistant Director of Finance
Approved by	Lynne Hamilton, Director of Finance
Presented by	Lynne Hamilton, Director of Finance

1.0 SITUATION

This paper sets out a proposed amendment to the current definition and use of reserves within ABMU. The intention is to provide greater clarity and transparency and improve governance in respect of the use and management of the Health Board's resources.

2.0 BACKGROUND

The purpose of financial reserves

Reserves are a fundamental aspect of good financial management and good financial governance. Reserves management should be part of routine financial reporting.

The scope and size of a reserve is a matter of judgment as well as of policy and should be informed by:

- the financial and operational context in which the organisation operates;
- its financial health;
- its accountability and governance framework;
- the organisation's risk tolerance; and
- the extent to which the organisation is embarking on new or novel activities.

It is important to differentiate between:

i. a reserve;
ii. a centrally managed budget; and
iii. a financial contingency.

Many of the reserves currently held within ABMU are essentially centrally managed budgets as they have agreed or known commitments against them e.g. NICE drugs, RTT funding.

3.0 ASSESSMENT

Current Position

The current Health Board reserves include:

Main Reserve – this reserve is seen as a pass through reserve, where Welsh Government allocations are received prior to distribution to the appropriate service. It is proposed that this is renamed **'Allocation Reserve'**. This currently also holds RTT and capital charges.

Internal Recurrent Reserve – this reserve holds agreed or anticipated commitments prior to their commencement or agreement, e.g. Winter Plan, Mobilisation.

Internal Non Recurrent Reserve – this reserves facilitates the Health Board's ability to meet unexpected costs, specifically on a non-recurrent basis. So in effect a contingency.

Pay Reserve – the pay reserve is established to manage pay and pensions inflationary changes prior to them being actioned and allocated to Unit budgets. It also holds the assessed impact of consultant commitment awards.

Prices Reserve – the prices reserve is established to transact non-pay inflationary changes and has also held an element of utilities consumption uplift from a historic agreed baseline.

NICE Reserve – the NICE reserve transacts the matching of costs for NICE and High Cost drugs within the Health Board and also the income and expenditure related to NICE and High Cost Drugs provided to or from other Health Boards.

Deficit Plan – this reflects the budget deficit of the Health Board.

The table below provides an analysis of the reserves held for 2017/18 and their movement on a month by month basis

Reserve	2017 18								
	Month 01	Month 02	Month 03	Month 04	Month 05	Month 06	Month 07	Month 08	Month 09
Main Reserve	17,643,177	28,310,557	27,941,936	19,957,172	25,552,064	24,020,583	14,951,318	30,517,387	30,018,294
Internal Recurrent Reserve	3,307,472	3,307,426	3,181,755	3,230,415	2,176,839	1,921,456	17,141,208	15,717,432	14,532,451
Internal Non Recurrent Reserve	287,724	275,785	263,248	251,006	242,464	230,064	210,202	154,805	142,018
Pay Reserve	11,889,226	5,783,540	3,435,607	2,561,789	2,568,356	2,164,165	2,189,814	1,352,064	1,352,064
Prices Prices	8,707,957	4,181,727	2,891,245	4,026,158	3,814,859	2,661,818	2,661,818	1,991,170	1,805,042
NICE Reserve	44,637,661	38,192,087	34,447,629	30,616,506	27,922,867	24,944,012	20,685,014	17,110,765	14,647,843
CIP Reserve	(21,042,532)	(26,261,206)	(26,261,206)	(17,179,133)	(16,863,373)	(14,977,178)	(14,840,178)	(14,840,178)	(14,840,178)
Total	**65,430,685**	**53,789,916**	**45,900,214**	**43,463,913**	**45,414,076**	**40,964,920**	**42,999,196**	**52,003,445**	**47,657,534**

The Health Board has held reserves of a similar scale and purpose for the last three financial years, the main variations relate to changes in budget plan approaches.

Proposal

We propose to designate the current reserves as

i. **Central Budget**- funding held to meet known or agreed commitments. Each element will have an agreed Budget Holder who will be responsible for managing resources;
ii. **Reserve** - funding held with expectation of future commitments but without any clear plan eg Seasonal Pressures or RTT. Once a firm plan is agreed through Executive Team it will be transferred to a Central Budget until such time as the plan is enacted and budget allocated to the relevant unit; and
iii. **Contingency** - funding held to meet unexpected or unforeseen events. The contingency will be managed by the Chief Executive Officer supported by the Director of Finance.

Subject to Performance and Finance Committee's agreement of this approach we will make 'reserves' allocations on this basis in readiness for the commencement of the new financial year.

Reserves will be reported to the Performance and Finance Committee on a quarterly basis.

4.0 RECOMMENDATIONS

The Performance and Finance Committee is asked to consider and agree;

- the proposed definitions and re-designation of the existing Health Board reserves;
- the management and governance arrangements proposed; and
- the reporting arrangements through Finance and Performance committee.