

# North Lanarkshire Council Report

## Policy and Strategy Committee

approval  noting

**Ref** EK/KS/VR

**Date** 31/01/20

## Reserves Policy

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### Executive Summary

The purpose of this report is to present the proposed Reserves Policy for consideration and approval by Policy and Strategy Committee.

The Council's Financial Strategy, approved by Policy and Strategy Committee in June 2019, set out the framework for sound financial governance, planning and management which is critical in light of the financial challenges facing the Council and to support the Council's ambitions for North Lanarkshire to be the place to live, learn, work, invest and visit.

The Revenue Resources Budget Strategy, approved by Policy and Strategy Committee in June 2019 is a key element of the overarching Financial Strategy. The Revenue Resources Budget Strategy states that consideration will continue to be given to the planned, sustainable use of available balances.

To address this commitment, it is appropriate that consideration is given to a Reserves Policy which will ensure available balances are managed and utilised in accordance with effective governance principles, and continue to support financial plans which are affordable and sustainable.

### Recommendations

It is recommended that Committee:

- (1) Notes the contents of this report
- (2) Approves the Reserves Policy in Appendix 1

### The Plan for North Lanarkshire

Priority All priorities

Ambition statement (25) Ensure intelligent use of data and information to support fully evidence based decision making and future planning

## 1. Background

- 1.1. In June 2019 the Policy and Strategy committee approved the Revenue Resources Budget Strategy. The strategy outlines the key principles that will be applied in setting future budgets and highlights that consideration will continue to be given to the planned, sustainable use of available reserve balances.
- 1.2. Over recent years the Council has used one-off resources to support the lead in time associated with implementing multi-year savings proposals when setting single year budgets. In addition, one-off resources have been committed to allow time to develop transformational reform or to support longer term transformation initiatives, such as Digital NL, which will deliver savings over time. Reserves are also used to fund the one off costs associated with savings proposals.
- 1.3. Due to the financial challenges facing the Council and the increasing commitment on reserves it is appropriate that the Council establishes a formal reserves policy, which will ensure robust processes in allocating resources demonstrating affordability and sustainability.
- 1.4. The purpose of this report is to present a Reserves Policy which:
  - sets out the types of reserves held by the Council and their purpose;
  - establishes procedures for governance of the reserves
  - outlines the circumstances for the utilisation of reserve balances; and
  - outlines the approach taken to determine the appropriate reserve levels held by the Council

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## 2. Report

### Current Reserve Levels

- 2.1. Audit Scotland's Local Government Financial Overview Report (2018/19) was published in December 2019. It highlights that the Council operates with amongst the lowest levels of reserves in comparison to other Scottish Local Authorities and takes a risk-based approach to identify an appropriate level for the uncommitted general fund each year. This approach has led to a low level of uncommitted general fund reserve.
- 2.2. The Council's Best Value Assurance Report published in May 2019 comments on the low level of uncommitted general fund but recognises that it has been set at a desired level and successfully maintained over several years.
- 2.3. Between 2013/14 and 2018/19, the level of all useable reserves, as outlined in table 1 of the policy, fell from £119 million in 2013/14 to £88 million in 2018/19. The Council has used General Fund reserves (£44.372m at 31/3/2019) when setting single year budgets to bridge the timing gap that existed between identifying and delivering some future savings plans. However, this planned use of reserves was based on the principle that reserves were only released for use in this manner where savings were clearly identified to deliver a permanent solution in the future.
- 2.4. Given that Audit Scotland Financial Overview Reports have previously commented on the risks associated with other councils' plans to use significant levels of reserves to plug funding gaps, it is essential that the Council's prudent approach to the use of reserves to assist with budget planning continues.

## **Reserves Policy**

- 2.5. The attached Reserves Policy aims to ensure that reserves are managed and maintained in a way that safeguards long term financial sustainability and supports sound financial management whilst striking the appropriate balance between meeting current obligations and preparing for future commitments and financial risks.
- 2.6. This Reserves Policy has been developed in line with LAAP Bulletins issued by the Local Authority Accounting Panel in conjunction with the CIPFA Technical Enquiry Section and complies with the requirements of the Code of Practice on Local Authority Accounting (the Code).

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### **3. Equality and Diversity**

#### **3.1 Fairer Scotland Duty**

There is no specific impact in relation to Fairer Scotland.

#### **3.2 Equality Impact Assessment**

There is no specific Equality Impact Assessment required.

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### **4. Implications**

#### **4.1 Financial Impact**

This report and attached Reserves Policy will form an integral part of the Council's Financial Strategy which provides the framework to ensure financial sustainability.

#### **4.2 HR/Policy/Legislative Impact**

There are no HR Policy or Legislative impact resulting from the contents of this report.

#### **4.3 Environmental Impact**

There is no environmental impact linked to this report.

#### **4.4 Risk Impact**

The Reserves Policy, as key element of the Council's Financial Strategy, will enable the Council to effectively manage risks associated with financial sustainability and will, therefore assist the Council in achieving its longer term plans and ambition

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### **5. Measures of Success**

- 5.1 The Council continues to strike a balance between meeting current obligations and preparing for future commitments or potential changes in funding levels.

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#### **Supporting documents**

Appendix 1 Reserves Policy



**Elaine Kemp**  
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# Reserves Policy

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<b>Governance Committee</b>	Policy & Strategy	<b>Date approved</b>	insert date
<b>Review date</b>	January 2021		

## Strategic Alignment

The Reserves Policy ensures that reserves held by the Council are managed and maintained in a way that safeguards long term financial sustainability and supports sound financial management. This is achieved through the regular review and use of reserves, demonstrating robust, affordable and sustainable financial plans which underpin all Council priorities.

<b>Consultation process</b>	Insert presentations made, surveys carried out etc	
<b>Stakeholders</b>	Contacts identified for each service	
	Insert name	Insert service, organisation
<b>Distribution</b>	Corporate Management Team	

<b>Date</b>	31/01/20	<b>Author</b>	Veronica Roberts
<b>Change made</b>	insert details of changes made		

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1. Background
2. Policy Objectives
3. Types of Reserves
4. Governance of Reserves
5. Assessment of Reserve Levels

Appendix 1          Protocol for Establishment and use of Earmarked Reserves

## **1. Background**

- 1.1 This Reserves policy has been developed in line with Local Authority Accounting Panel (LAAP) Bulletins issued in conjunction with the CIPFA Technical Enquiry Section. The Guidance is also in line with the requirements of the Code of Practice on Local Authority Accounting (the Code).
- 1.2 The policy sets the guidelines which ensure reserves are established and managed in a way that safeguards long term financial sustainability and supports good financial management, allowing the Council to balance current obligations and preparing for future commitments and financial risks.

## **2. Policy Objectives**

- 2.1. The objectives of the Reserves Policy are to:
  - set out the types of reserves held by the Council and their purpose;
  - establishes procedures for governance of the reserves
  - outlines the circumstances for the utilisation of reserve balances; and
  - outline the approach taken to determine the appropriate reserve levels held by the Council

## **3. Types of Reserves**

- 3.1. 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 a Capital Fund alongside a requirement to maintain a General Fund (section 93 of Part VII of the Local Government (Scotland) Act 1973).
- 3.2. Within the General Fund Reserve, Local Authorities can earmark elements for specific purposes.
- 3.3. Reserves are categorised as either usable or unusable on the balance sheet depending on their nature. Unusable Reserves are kept in order to manage accounting processes for non-current assets, financial instruments and retirement benefits. Usable Reserves include cash balances that can be utilised by the Council as part of its financial strategy to ensure effective management of the Council's operations.
- 3.4. Usable Reserves are held for three main purposes:
  - Create a contingency to cushion the impact of unexpected events or emergencies.
  - Create a means of building up funds, referred to as earmarked reserves, to meet known or predicted liabilities.
  - Create a working balance to help mitigate the impact of uneven cash flows and avoid unnecessary temporary borrowing.
- 3.5. Table 1 below identifies the various Usable Reserves held on the Council's Balance Sheet and provides further information on their purpose.

<b>General Fund Reserve</b>	<p>This reserve is held to support service delivery and is made up of the following funds:</p> <ul style="list-style-type: none"> <li>• <b>Contingency Fund</b> which is an uncommitted amount held for unexpected events or emergencies. The level of funds held for contingency are reported by the S95 Officer as part of the annual budget setting process.</li> <li>• <b>Earmarked Funds</b> for known specific commitments.</li> <li>• <b>Change Management Fund</b> which represents the remaining General Fund balance in any given year and is generally used to support the one off costs associated with approved budget savings and Voluntary Redundancy Scheme (VRS).</li> </ul>
<b>Housing Revenue Reserve</b>	<p>This reserve reflects the accumulated surpluses/ deficits of the Housing Revenue Account. The local authority housing provision defined in the Housing (Scotland) Act 1987 requires these funds to be accounted for separately from the General Fund. This reserve is held to support service delivery and is made up of the following funds:</p> <ul style="list-style-type: none"> <li>• <b>Core Fund</b> which is an uncommitted amount held for unexpected events or emergencies and is reported as part of the annual budget setting process.</li> <li>• <b>Earmarked Funds</b> for known specific commitments.</li> <li>• <b>Change Management Fund</b> which represents the remaining balance in any given year and if not required may be considered for use as part of a future year budget setting.</li> </ul>
<b>Capital Grants Unapplied Account</b>	Shows the capital grants received by the Council in year but has not yet been fully utilised. These are held and used when required and grant conditions fulfilled.
<b>Capital Fund</b>	Reflects capital receipts from the sale of capital assets which can be used to fund capital expenditure or finance loans fund repayments associated with capital expenditure.
<b>Insurance Fund</b>	This fund is held as a provision for outstanding claims and unknown future events. The reserve is used to cover current and potential future claims funded out with active insurance policies.
<b>Repairs and Renewals Fund</b>	Reflects funds which have been set aside to support expenditure to be incurred from time to time in repairing, maintaining, replacing and renewing any buildings, works, plant, equipment or articles belonging to the authority.

*Table 1*

#### 4. Governance of Reserves

4.1. Governance arrangements which will apply to Reserves are as follows:

##### a) General Fund Reserve – Contingency Fund

The Contingency Fund should be maintained at the current level of £8m. In the event that the balance drops below this amount, Committee will be advised and a recovery plan to replenish the Contingency Fund will be brought forward. The appropriateness of this level will be considered annually and reported to Council as part of the Budget Setting process

**b) General Fund Reserve – Earmarked Funds**

There is no limit applied to the level of committed reserves which the Council can hold. However, all requests to earmark funds must be suitably supported by evidence and must demonstrate alignment with the Financial Strategy and the Plan for North Lanarkshire. A Protocol for Establishment and Use of Earmarked Reserves is attached at appendix 1.

An annual review of all earmarked reserves will be undertaken by S95 officer in conjunction with the relevant Executive Director. The outcome of this process and subsequent updates in respect of earmarked reserves will be presented to the Corporate Management Team each period and to Finance and Resources Committee each cycle, as part of the overall revenue budget monitoring arrangements.

**c) General Fund Reserve – Change Management Fund**

Requirements for Change Management Funding will be assessed regularly, and will reflect change programmes to be undertaken by the Council within a defined timeframe. Updates will be reported to the Corporate Management Team at each period and to Finance and Resources Committee at each cycle as part of the overall revenue budget monitoring arrangements

**d) Housing Revenue Reserves**

All Housing Revenue Reserves are quantified and approved as part of the budget setting process, with updates reported to the Housing & Communities Committee each cycle as part of the revenue monitoring report.

**e) Capital Grants Unapplied Account**

This funding is held for a specific purpose and is available for drawdown when expenditure is incurred in accordance with any grant conditions.

**f) Capital Fund**

All capital receipts will be applied to the Capital Fund unless otherwise approved (e.g. as part of approved business case) to fund loan principal repayments.

**g) Insurance Fund**

The fund balance is reported as part of the annual accounts process. Use of this fund is managed on an ongoing basis throughout each financial year in accordance with requirements.

**h) Repairs and Renewals Fund**

Funds can be set aside to support repairs and renewals expenditure, which are available for drawdown as required.

- 4.2. Reserve balances represent one-off funding, therefore use of reserves for recurring revenue expenditure or to balance the budget, is unsustainable. To the extent that reserves are used to meet short term funding gaps, there must be evidence of plans in place for a permanent funding solution.

## **5. Assessment of Reserve Levels**

- 5.1. Both the Reserves Policy and Reserve Balances should be reviewed annually to ensure reserves are maintained at an adequate and appropriate level and that robust governance arrangements are maintained.
- 5.2. Setting the level of reserves is one of a number of related decisions in the ongoing development of the Council's MTFP and subject to review as part of the year end process and budget setting process. In establishing and approving the MTFP the Council will ensure that it maintains a prudent level of reserves in line with best practice and relevant guidelines. Any surplus reserves will be considered in the light of the budget forecast and the risks associated with that forecast.
- 5.3. In determining the level of reserves all strategic, operational and financial risks facing the Council should be assessed including both internal and external risks. As a minimum the S95 Officer should consider the following:
  - The overall financial standing of the Council including: level of borrowing; outstanding debt; council tax collection rates
  - The Council's track record in budget and financial management
  - The robustness of the Council's MTFP and assumptions contained;
  - The Council's capacity to manage in year budget pressures;
  - The strength of financial information and reporting arrangements;
  - Fluctuations in inflation and interest rates and their impact on future years budgeting.
- 5.4. The S95 Officer should include a statement within the Budget Report highlighting the estimated opening General Fund balance for the year, the additions to/withdrawal from balances and the estimated end of year balance.

**Protocol for Establishment and Use of Earmarked Reserves**

**Establishing Earmarked Reserve**

The requirement for the establishment of an earmarked reserve will be considered as part of the financial year end process.

Funds may be earmarked if they relate to a financial commitment that has not yet been realised, does not meet the criteria for accrual or provision, and there is clear justification why the obligation does not meet the criteria. Examples of this could include:

- Dilapidations where there is an obligation to return rented property to its original state prior to termination of the lease.
- Devolved School Management funds are retained by the School however are accounted for within the Council's overall surplus or deficit for the year; therefore require to be earmarked for return to the school.
- Support for investment in Council projects where a business case is presented

New requests to earmark funds for future use should be made to the S95 Officer by the relevant Head of Service, using the template provided at appendix 2. This requires confirmation of the amount to be earmarked, clear justification of why the monies are required and the timeframe for use of the balance. In the case where the request is to assist with a recurring burden, details should be provided of how the Service plan to replace the funds in future years.

The S95 Officer will make a decision on each request to earmark funds in the context of the need, and the risk to the financial sustainability of the Council.

If approved, the Head of Service will maintain records of the use of funds. Where the reserve is used for a shortfall in funding, the Head of Service must provide periodic updates on the plans for replacing the funds in future years along with updates on projected spend against approved earmarked reserves through their revenue monitoring report. In addition the S95 Officer should be notified immediately if the monies are no longer required and can be released. Typically the earmarked reserve should not be held for more than 2 years unless supported by a business case.

As part of the year end close down, the S95 officer should be provided with the final position for the year clearly identifying opening balance and spend in the year. Where funds are required to be carried forward, full justification must be provided otherwise any remaining balance on the reserve will be released to the unallocated General Fund balance.

**New Request to Earmark General Fund Reserves**

Service:

Division:

Head of Service:

<b>Earmarked Reserve Name:</b>	
<b>Description of Use:</b>	
<b>Amount Requested:</b>	
<b>Timeframe for Use:</b> <i>(If use spans more than one financial year, please provide indicative spend per year)</i>	
<b>Reason for Request:</b> <i>(Include details of alternative funding options considered)</i>	
<b>Plans to replace funds:</b> <i>(appropriate where fund is being earmarked to cover a recurring burden)</i>	

Signed:

Date: