North Lanarkshire Council
Report

Policy and Strategy Committee

Does this report require to be approved? ☒ Yes ☐ No

Ref GT/VR/FC **Date** 04/12/25

Review of Reserves Policy

From Greg Telfer, Chief Officer (Finance and Technology)

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Executive Summary

The purpose of this report is to present a revised Reserves Policy that ensures the Council's reserves continue to be managed effectively to support long-term financial sustainability, strategic service delivery, and effective budget planning. The updated policy aims to provide a balance between supporting short term operational needs and longer term priorities, allowing flexibility to support transformational change whilst providing a sustainable financial base to manage risk and respond to future pressures.

Recommendations

It is recommended that Policy and Strategy Committee:

(1) Acknowledges the contents of this report.
(2) Approves the revised Reserves Policy.

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
Programme of Work	Statutory / corporate / service requirement

1. Background

1.1 The Use of Reserves Policy, initially approved by Policy and Strategy in January 2020, has been subject to annual review to ensure its continued relevance and effectiveness. The policy aims to ensure that the Council's reserves are managed prudently to safeguard long-term financial sustainability and promote sound financial management. Regular reviews of reserve levels are a key component of this approach.

1.2 Furthermore the policy forms an important part of the Council's Financial Strategy, which provides the overarching framework for effective financial governance, planning, and management. It supports the delivery of the Programme of Works and the Plan for North Lanarkshire by ensuring a coordinated and robust approach to financial planning. This is essential to successfully manage the scale and ambition of the Council's vision for North Lanarkshire as a place to live, learn, work, invest, and visit.

2. Report

2.1 The purpose of this review is to ensure that the Council's reserves continue to be managed in a way that supports long-term financial sustainability, strategic service delivery, and effective budget planning. Given the complexity of the financial landscape and the scale of the Council's ambitions, it is essential that reserves are aligned with both short-term operational needs and medium/long-term strategic objectives.

2.2 The review and refinement of the Council's reserve policy aims to maintain a robust financial foundation that enables the Council to manage risk, respond to emerging pressures, and invest in transformational change. Specifically, the review has aimed to achieve the following outcomes:

- Set clear target levels for the Contingency Fund and reserves earmarked for future budget pressures, in order to enhance transparency and financial resilience.
- Support a more strategic approach to savings delivery, recognising that future savings are likely to be increasingly dependent on service redesign rather than traditional cost cutting measures. The realisation that these types of savings generally require a longer lead in time and temporary funding to support the change.
- Establish a procedure for the use of unallocated reserves, ensuring that any use is linked to/set out as part of the Council's budget setting process.
- Joins up the process of year end reserve positions and the Medium-Term Financial Plan (MTFP), ensuring that reserve decisions are not made in isolation but are part of a clear financial planning process.

Current Position

2.3 The current Reserves Policy sets out the Usable Reserves that the Council hold and provides further detail on their purpose and how they can be used. This covers balances within the General Fund Reserve including Contingency Fund, Earmarked Funds and Change Management Fund in addition to Housing Revenue Account, Capital Fund, Insurance Fund, and Repairs & Renewals Fund.

2.4 The governance around the use of reserves is also set out and currently:

- Use of reserves must align with the Financial Strategy and be approved through formal processes.
- Earmarked reserves require justification, a timeframe, and are reviewed annually
- Unused earmarked balances may be released back to the General Fund.

2.5 The policy also highlights reserves are for one off use and should not be used for recurring costs unless a certain permanent solution is in place.

Proposed Reserve Targets

2.6 The *Contingency Fund* 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. Historically this has remained at a static £8m however it is now considered that a more appropriate approach would be to link it to the net revenue budget. Applying a percentage contingency is more flexible and aligns proportionately with the overall size of the organisation i.e. if Net Revenue

increases, the contingency adjusts to reflect this change. It is recommended that the council set aside 1% of its net revenue expenditure budget to a contingency fund. This is in line with the approach taken by other Local Authorities and reflects the Council's positive track record for budgetary control.

2.7 Currently there is an amount set aside within earmarked reserves for *Future Budget Pressures*. It is proposed that this is also set based on a target to ensure that it is reflective of the budget shortfall and provides an appropriate level of one off resources to assist with smoothing the impact of service redesign, allowing lead in time for savings and supports strategic service redesign rather than applying budget cuts. It is recommended that an average of the 3 year budget gap should be set aside for this purpose. This would be set at the closing of the year end and be linked to the MTFP prepared at the same time i.e. 2026/27 amount will be based on the June 2026 MTFP budget gap forecast for 2027/28 – 2029/30.

2.8 In previous versions of the Reserves Policy, the Change Management Fund (CMF) represented the remaining unallocated General Fund balance to support one-off costs linked to approved savings and the Voluntary Redundancy Scheme (VRS). The need for CMF has now been more closely aligned with financial planning through revenue budget monitoring and the MTFP providing greater certainty over the level of resource required to implement approved savings.

2.9 The proposed *Reserve Policy* is shown at appendix 1. This incorporates changes to reflect the significant points above along with some minor amendments required to reflect current council terminology and arrangements. All changes have been highlighted.

3. Measures of success

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

4. Supporting documentation

Appendix 1 Reserves Policy

Greg Telfer
Chief Officer (Finance and Technology)

5. Impacts

5.1	**Public Sector Equality Duty and Fairer Scotland Duty** Does the report contain information that has an impact as a result of the Public Sector Equality Duty and/or Fairer Scotland Duty? Yes ☐ No ☒ If Yes, please provide a brief summary of the impact? If Yes, has an assessment been carried out and published on the council's website? https://www.northlanarkshire.gov.uk/your-community/equalities/equality-and-fairer-scotland-duty-impact-assessments Yes ☐ No ☐
5.2	**Financial impact** Does the report contain any financial impacts? Yes ☐ No ☒ If Yes, have all relevant financial impacts been discussed and agreed with Finance? Yes ☐ No ☐ If Yes, please provide a brief summary of the impact?
5.3	**HR policy impact** Does the report contain any HR policy or procedure impacts? Yes ☐ No ☒ If Yes, have all relevant HR impacts been discussed and agreed with People Resources? Yes ☐ No ☐ If Yes, please provide a brief summary of the impact?
5.4	**Legal impact** Does the report contain any legal impacts (such as general legal matters, statutory considerations (including employment law considerations), or new legislation)? Yes ☐ No ☒ If Yes, have all relevant legal impacts been discussed and agreed with Legal and Democratic? Yes ☐ No ☐ If Yes, please provide a brief summary of the impact?
5.5	**Data protection impact** Does the report / project / practice contain or involve the processing of personal data? Yes ☐ No ☒ If Yes, is the processing of this personal data likely to result in a high risk to the data subject? Yes ☐ No ☐ If Yes, has a Data Protection Impact Assessment (DPIA) been carried out and e-mailed to dataprotection@northlan.gov.uk Yes ☐ No ☐
5.6	**Technology / Digital impact** Does the report contain information that has an impact on either technology, digital transformation, service redesign / business change processes, data management, or connectivity / broadband / Wi-Fi? Yes ☐ No ☒

If Yes, please provide a brief summary of the impact?

Where the impact identifies a requirement for significant technology change, has an assessment been carried out (or is scheduled to be carried out) by the Enterprise Architecture Governance Group (EAGG)?

Yes ☐ No ☐

5.7 Environmental / Carbon impact

Does the report / project / practice contain information that has an impact on any environmental or carbon matters?

Yes ☐ No ☒

If Yes, please provide a brief summary of the impact?

5.8 Communications impact

Does the report contain any information that has an impact on the council's communications activities?

Yes ☐ No ☒

If Yes, please provide a brief summary of the impact?

5.9 Risk impact

Is there a risk impact?

Yes ☐ No ☒

If Yes, please provide a brief summary of the key risks and potential impacts, highlighting where the risk(s) are assessed and recorded (e.g. Corporate or Service or Project Risk Registers), and how they are managed?

5.10 Armed Forces Covenant Duty

Does the report require to take due regard of the Armed Forces Covenant Duty (i.e. does it relate to healthcare, housing, or education services for in-Service or ex-Service personnel, or their families, or widow(er)s)?

Yes ☐ No ☒

If Yes, please provide a brief summary of the provision which has been made to ensure there has been appropriate consideration of the particular needs of the Armed Forces community to make sure that they do not face disadvantage compared to other citizens in the provision of public services.

5.11 Children's rights and wellbeing impact

Does the report contain any information regarding any council activity, service delivery, policy, or plan that has an impact on children and young people up to the age of 18, or on a specific group of these?

Yes ☐ No ☒

If Yes, please provide a brief summary of the impact and the provision that has been made to ensure there has been appropriate consideration of the relevant Articles from the United Nations Convention on the Rights of the Child (UNCRC).

If Yes, has a Children's Rights and Wellbeing Impact Assessment (CRWIA) been carried out?

Yes ☐ No ☐

NORTH LANARKSHIRE COUNCIL
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RESERVES POLICY

LIVE
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Document control			
Title	Reserves Policy		
Owner	Greg Telfer	**Contact**	TelferG@northlan.gov.uk
Governance Group	Policy and Strategy Committee		
Author	Veronica Roberts	**Contact**	RobertsV@northlan.gov.uk

Revision History			
Number	**Originator**	**Date Review Commenced**	**Revision description/record of change**

Document Approvals			
Number	**Governance Group**	**Date approval granted**	**Date approval to be requested** (if document still draft)
	BMT		20 November 2025
	Policy & Strategy		4 December 2025

Consultation Record (for most recent update)	
Status of document consulted upon	
Stakeholders consulted/date	

Strategic Alignment

Next review date	
Review Date	November 2026

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Background

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).

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.

Policy Objectives

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

Types of Reserves

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).

Within the General Fund Reserve, Local Authorities can earmark elements for specific purposes.

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.

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.

Table 1 below identifies the various Usable Reserves held on the Council's Balance Sheet and provides further information on their purpose.

General Fund Reserve	This reserve is held to support service delivery and is made up of the following funds: • *Contingency Fund* 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. This is set at 1% of Net Revenue Expenditure budget. • *Earmarked Funds* for known specific commitments. • *Change Management Fund* is an earmarked portion of the General Fund Reserve generally used to support the one off costs associated with approved budget savings and Voluntary Redundancy Scheme (VRS). • *Future Budget Pressures* is an earmarked portion of the General Fund Reserve targeted to representing the average of the current 3 year budget gap used to assist where required when supporting strategic service redesign to smoothing service reductions.
Housing Revenue Reserve	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: • *Core Fund* which is an uncommitted amount held for unexpected events or emergencies and is reported as part of the annual budget setting process. • *Earmarked Funds* for known specific commitments. • *Change Management Fund* is an earmarked portion of the Housing Revenue Reserve generally used to support the one off costs associated with approved budget savings and Voluntary Redundancy Scheme (VRS). • *Unallocated Housing Revenue Reserve* which represents the remaining balance in any given year and may be considered for use as part of a future year budget setting.
Capital Grants Unapplied Account	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.
Capital Fund	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.
Insurance Fund	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.

Repairs and Renewals Fund	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

Governance of Reserves

Governance arrangements which will apply to Reserves are as follows:

General Fund Reserve – Contingency Fund

The Contingency Fund should be set at 1% of Net Revenue Expenditure budget. 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

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 Chief Officer. The outcome of this process and subsequent updates in respect of earmarked reserves will be presented to the Business Management Team each period and to Finance and Resources Committee each cycle, as part of the overall revenue budget monitoring arrangements.

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 Business Management Team at each period and to Finance and Resources Committee at each cycle as part of the overall revenue budget monitoring arrangements

General Fund Reserve – Future Budget Pressures

Requirement to set aside funds to support strategic service redesign ensuring a smooth reduction to service budgets. This fund will be targeted to represent the average of the 3 year budget gap as reported by the Medium Term Plan in the same year.

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.

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.

Capital Fund

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

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.

Repairs and Renewals Fund

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

Reserve balances represent one-off funding, therefore use of reserves for recurring revenue expenditure or to balance the budget, is unsustainable. However the Section 95 officer retains the right to use reserve balances where deemed appropriate for example to smooth the impact of budget reductions required in response to reduced funding levels. In the event that reserves are used to meet short term funding gaps, there must be evidence of plans in place for a permanent funding solution.

Assessment of Reserve Levels

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.

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.

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.

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.

APPENDIX 1

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 Chief Officer, 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 Chief Officer will maintain records of the use of funds. Where the reserve is used for a shortfall in funding, the Chief Officer 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.

APPENDIX 2

New Request to Earmark General Fund Reserves

Service:

Division:

Chief Officer:

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

Signed:

Date: