



## Lydney Town Council

### General Reserves & Earmarked Reserves Policy

(Adopted 13.11.23)

#### 1. Introduction

Lydney Town Council is required to maintain adequate Financial Reserves to meet the needs of its operations and to ensure financial security.

The purpose of this policy is to set out how the Council will determine and review the level of reserves.

The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2021 edition) advises:

*“As with any financial entity, it is essential that authorities have sufficient reserves (General and Earmarked) to finance both its day-to-day operations and future plans. It is important, however, given that its funds are generated from taxation/public levies, that such reserves are not excessive.”*

Sections 32 and 43 of the Local Government Finance Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.

However, there is no specific minimum level of reserves which an authority should hold, and it is the responsibility of the Responsible Financial Officer to advise the Town Council about the level of reserves and to ensure that there are procedures for their establishment and use.

#### 2. Types of Reserves

These may be categorised as either General or Specific Earmarked Reserves (EMR'S).

##### 2.1 General Reserves

General Reserves are funds which do not have any restrictions on their use.

They cushion the impact of uneven cash flows, offset budget requirements, if necessary, or can be held in case of unexpected events or emergencies.

Setting the level of General Reserves is agreed with the Annual Budget.

JPAG (March 2021 edition) advises:

“The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority’s General Reserve is that this should be maintained at between three (3) and twelve (12) months Net Revenue Expenditure (NRE).”

**“The smaller the authority, the closer the figure should be to 12 months NRE, the larger the authority the nearer to 3 months. In practice, any authority with an NRE in excess of £200,000 should plan on 3 months equivalent.”**

The primary means of building General Reserves will be through a reallocation of funds (underspend on a completed project) and allocation from the annual budget.

This will be in addition to any amounts needed to replenish reserves which have been spent in the previous year.

If in extreme circumstances General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Town Council would be able to draw down from its EMRs to provide short term resources.

Examples of General Reserves could include:

- Unexpected challenge i.e. audits
- Clerk illness and cover required
- Cover for short term cashflow issues
- Essential repairs and maintenance
- Employment obligations

## **2.2 Earmarked Reserves ‘EMR’s**

EMRs must be held for genuine and intended purposes and their level should be subject to annual review and justification.

They should be separately identified to prevent query from internal and external auditors.

EMRs are held for several reasons and shall only be used for the purpose for which they were created examples being:

**Renewals** – to enable the planning and financing of an effective programme of equipment replacement and property maintenance/refurbishment.

The funds required are built up incrementally over several years when taking into account asset conditions and asset life.

They are a mechanism to smooth expenditure without the need to vary budgets.

**To Carry forward** of underspend on an uncompleted project – expenditure committed to a project but not spent in the budget year. Reserves can be used as a mechanism to carry forward those resources.

**Developers Contributions S106**– proceeds from developers which can only be used for specified purposes within specified timeframes.

**Other Earmarked Reserves** – these may be set up from time to time to meet known or predicted liabilities e.g., Election costs, Neighbourhood plan etc.

### **2.3 Variation of EMR**

Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, be transferred to other budget headings within the revenue budget, to General Reserves or to one or more other Earmarked Reserves.

EMRs will be established on a “needs” basis in line with anticipated requirements and these are to be reviewed annually when the budget is agreed.

Examples of Earmarked could include:

- Defibrillator costs – to replace parts of the unit
- Insurance – to cover costs/excess not covered under the general policy
- Saving for items – i.e. plant equipment
- Elections
- Mayor & Deputy Mayor Chains of Office up-keep and renewal

## **2.4 Review of EMR**

If the EMRs are used to meet short term funding gaps, they must be replenished in the following financial year.

However, EMRs which have been used to meet a specific liability would not need to be replenished, after having served the purpose for which they were originally set up.

Earmarked Reserves shall be reviewed on an individual basis with this review being undertaken as part of the regular budgetary process.

## **3. Management and Control of Reserves**

Movements in Earmarked Reserves and General Reserves shall be reported to the Town Council, or relevant committee, as part of the quarterly Budget to Actual Report and at monthly meetings if required.

The level of General Reserves shall be reviewed on an annual basis during the annual budgetary review and agreed by the Town Council.

The minimum level of General Reserves shall be recommended to the Town Council by the Responsible Financial Officer.

This will form part of the recommendations for the Annual Budget and Precept request by the Town Council.

**The current level of General Reserves to be held by the Council is set at equal to between three and six months of predicted expenditure.**