Lydney Town Council

General Reserves & Earmarked Reserves Policy

Reviewed October 2026 and Readopted November 2026

1. Introduction

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

This policy sets out the council's approach to maintaining appropriate levels of reserves and general balances to meet known future commitments and to mitigate against unforeseen future events.

It is considered prudent to maintain a level of reserve balances commensurate with risk and an assessment to confirm the adequacy and robustness of balances is undertaken annually by the Section 151 Officer (Responsible Finance Officer or RFO) as part of the budget setting process.

2.Legislative Framework

The council is required to set a balanced budget each year under Section 31A of the Local Government Finance Act 1992, which includes having regard to the level of reserves needed for meeting estimated future expenditure when calculating the precept requirement.

Section 151 of the Local Government Act 1972 requires the council to make arrangements for the proper administration of their financial affairs and ensure that one of its officers (also referred to as the S151 officer or RFO) has responsibility for the administration of those affairs.

Under section 25 of the Local Government Act 2003, the S151 officer has a duty to report on the robustness of estimates and adequacy of reserves when the authority is setting its annual budget and precept requirement.

"The Council's reserves will be reviewed in accordance with JPAG[1] guidance. The Council maintains reserves at a level considered sufficient to support operational resilience and

[1] The Joint Panel on Accountability and Governance Practitioners Guide (JPAG) (March 2021 edition)

planned future expenditure, while ensuring that balances are not excessive in relation to the needs of the authority."

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 RFO to advise the Town Council about the level of reserves and to ensure that there are procedures for their establishment and use.

3. Types of Reserves

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

3.1 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 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

3.2 Principles of Reserve Management

- The RFO will advise annually on the appropriate level of reserves, considering risks and medium-term financial planning.
- Reserves may only be used with the formal approval of full Council.
- If reserves fall below the agreed benchmark, the Council will plan to rebuild them within a reasonable timeframe.
- All reserve movements (creation, use, transfers) will be reported in the Council's budget monitoring and year-end accounts.

3.3 Governance and Delegation

- The RFO will manage day-to-day transactions within the framework of this policy.
- All investment decisions, creation of new reserves, or use of reserves require approval by full Council.
- The Council will record such decisions in minutes and publish them where required by transparency rules.

4. 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.

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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.

4.1 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

4.2 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.

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5. Principles of Reserve Management

- The RFO will advise annually on the appropriate level of reserves, considering risks and medium-term financial planning.
- 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.
- Reserves may only be used with the formal approval of full Council.
- The minimum level of General Reserves shall be recommended to the Town Council by the Responsible Financial Officer.
- If reserves fall below the agreed benchmark, the Council will plan to rebuild them within a reasonable timeframe.
- All reserve movements (creation, use, transfers) will be reported in the Council's budget monitoring and year-end accounts.

6. Governance and Delegation

- The RFO will manage day-to-day transactions within the framework of this policy.
- All investment decisions, creation of new reserves, or use of reserves require approval by full Council.
- The Council will record such decisions in minutes and publish them where required by transparency rules.

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