



Earmarked Reserves & Reserve Policy

Background

The Practitioners Guide (2024 edition) which may be found here: <https://www.nalc.gov.uk/library/our-work/jpag/4040-practitioners-guide-2024/file> points out at paragraph 1.13 that to be able to give a positive answer to Assertion 1¹ of the Annual Governance Statement the following process (amongst others) needs to be in place and effective:

"Reserves — The authority needs to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves."

The Practitioners Guide goes on to say the following at Section 5:

"Reserves:

- 5.31. *As with any financial entity, it is essential that authorities have sufficient reserves (general and earmarked) to finance both their day-to-day operations and future plans.*
- 5.32. *Smaller authorities have no specific right to accumulate funds via the precept. All reserves should be reviewed and justified regularly (i.e. at least annually). It is good practice to transparently publish both the level and rationale of all reserves.*

General reserves:

- 5.33. *The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.*
- 5.34. *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 and twelve months of net revenue expenditure.*
- 5.35. *The reason for the wide range is to cater for the large variation in activity level between individual authorities. The smaller the authority, the closer the figure may be to 12 months expenditure, the larger the authority, the nearer to 3 months. In practice, any authority with income and expenditure in excess of £200,000 should plan towards 3 months equivalent general reserve.*
- 5.36. *In all of this it is important that each authority adopt, as a general reserve policy, the level appropriate to their size, situation, risks and plan their budget so as to ensure that the adopted level is maintained. Consideration of the minimum level of reserves requires not only consideration of level of income and expenditure but also the risks to that income.*
- 5.37. *Authorities with significant self-generated income (other than the precept or levy) should take into account situations that may lead to a loss in revenue as well as increased costs and adapt their general reserve accordingly.*

Earmarked and other reserves:

- 5.38. *None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.*

5.39.

There is, in practice, no upper or lower limit to EMR/CRRs save only that they must be held for genuine and identifiable purposes and projects, and their level should be subject to regular review and justification (at least annually and at budget setting), and should be separately identified and enumerated. Significant levels of EMRs in particular may give rise to enquiries from internal and/or external auditors."

¹ Assertion 1 says "We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements".

Existing Reserves and Policy

The Councils earmarked Reserves and Policy were reviewed during the budget process. The earmarked reserves as of 11 February 2026 are appended to this report. The Finance Committee would like to ensure that there are 3 months' equivalent general reserves.

EMR/CRR's - Earmarked Reserves and Capital Receipts Reserves