LYDIARD MILLICENT PARISH COUNCIL
GENERAL RESERVES POLICY

Introduction

Lydiard Millicent Parish Council is required to maintain adequate Financial Reserves to meet the needs of the organisation. The purpose of this policy is to set out how the Council will determine and review the level of General Reserves.

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 specified minimum level of reserves that an authority should hold and it is the responsibility of the Responsible Financial Officer to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use. The determination of the Council's reserves will be consistent with meeting the Council's overall strategic objectives, i.e.

- improving the quality of Lydiard Millicent amenities
- strengthening the quality of its community.
- optimising the Council's administrative costs, assets and income from assets.

Types of Reserves

Reserves can be categorised as General (held to cushion the impact of uneven cash flows or unexpected events) or Earmarked (held for a specific purpose).

Earmarked Reserves are for specific items of expenditure to meet known or predicted liabilities or projects. Specific reserves are often used to “smooth” the effects of certain expenditure commitments over a period of time thereby reducing the impact of significant expenditure in any one year. Earmarked Reserves can be held for many reasons, such as:

- to plan and finance an effective programme of grounds machinery / office equipment replacement
- planned property repair / maintenance
- repair / maintenance of play equipment
- highway and footway safety improvements

General Reserves are funds which do not have any restrictions as to their use. Their use typically comprises of three elements:

- a sum of money which is not earmarked for specific purposes but rather set aside to deal with unexpected events or emergencies. This “minimum working balance” needs to be regularly reviewed using a risk based assessment.
- money held in anticipation of uneven cash flow, (for example the precept income received 6 monthly in advance and VAT reclaimed annually retrospectively)
- Any excess created through surpluses as a result of activities being postponed or cancelled. Reserves of this nature can be spent or earmarked at the discretion of members, subject to approval by Council.

The Smaller Authorities Proper Practices Panel Practitioners’ Guide 2025

Section 5.31 – Reserves - 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.

Section 5.33 – *General reserves – The general reserve of an authority comprises its cash flow and contingency funds to cover unexpected inflation, unforeseen events and unusual circumstances.*

Section 5.34 – General reserves - 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.
Section 5.35 – General reserves - 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.
Section 5.36 – General reserves - 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.
Section 5.38 – Earmarked and other reserves – None of the above in any way affects the level of earmarked and/or capital receipts reserves that an authority may or should hold.
Section 5.39 – Earmarked and other reserves - 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 EMR's in particular may give rise to enquiries from Internal and/or External Auditors.

Policy

The level of General Reserves is set at a range of six (6) and eight (8) months, with the aim of seven (7) months of gross expenditure before deducting any planned income. If General Reserves are between seven (7) and eight (8) months, consideration should be given to freeze the precept. If over eight (8) months, consideration should be given to reduce the precept once all predicted expenditure is known. If General Reserves fall below gross expenditure of six (6) months, steps will be taken to bring levels of reserves back to between six (6) and eight (8) months, within a reasonable time period. The final decision to freeze, increase or reduce the precept should be made based on the forecasted expenditure, and made at the Parish Council meeting where the precept is being considered.

Principles to Assess the Adequacy of Balances and Reserves

The level of General Reserves is a matter of judgement. The primary means of building general reserves will be through an allocation from the annual budget. This will be in addition to any amounts needed to replenish reserves that have been consumed in the previous year.

Setting the level of General Reserves is one of several related decisions in the formulation of the medium term financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces.

Adopted by Lydiard Millicent Parish Council on 5 March 2026 (Minute Ref. 25.196)