

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 Fund Reserves.

Sections 31 and 43 of the Local Government Finance Act 1992

Requires 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 key protocols 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.

The Governance & Accountability for Local Councils Practitioners Guide 2021

Section 5.31 – *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.*

Section 5.32 – *General Reserves – The generally accepted recommendation with regard to the appropriate minimum level of a Smaller Authority's General Reserves is that it should be maintained at between three (3) and twelve (12) months. The reason for the wide range is to cater for the large variation in sizes of individual councils. The smaller the authority the closer the figure should be to twelve(12) months Net Revenue Expenditure. Changes in activity levels/range of services will inevitably led to changes in the requisite minimum level of General Reserve to provide working capital for those activities.*

Section 5.33 – *The level of General Reserves does not in any way affect the level of Ear Marked Reserves(EMR). There is, in practice, no upper or lower limit to EMR save only that they must be held for genuine and intended purposes, and their level should be subject to regular review and justification (at least annually) 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.*

It is generally accepted that general (i.e. un-earmarked) revenue reserves usually lie within the range of three to twelve months of gross expenditure. However, the amount of general reserve should be risk assessed by the Council.

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

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 are typically held for three main reasons:

Earmarked

Asset Renewals - to plan and finance an effective programme of equipment replacement of grounds machinery/office equipment, planned property repair/maintenance, replacement play equipment and grounds maintenance. Ear Marked Reserves are a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets.

General Reserves

This 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 quarterly 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.

Legislative and Regulatory Framework

The Responsible Financial Officer is required to provide a statement on the adequacy of the General Revenue Fund, Ear Marked Reserves and provisions in relation to the forthcoming financial year and also over the medium term.

In reporting generally on the Reserves and balances, the Responsible Financial Officer is also required to report on the Ear Marked Reserves of the Council, outlining the purpose for which each is held, establishing an appropriate level of reserve and highlighting any proposed changes during the forthcoming year.

Principles to Assess the Adequacy of Balances and Reserves:

In order to assess the adequacy of unallocated General Reserves when setting the budget, the Responsible Financial Officer should take account of the strategic, operational and financial risks facing the Council. The financial risks should be assessed in the context of the Council's overall approach to risk management. The Responsible Financial Officer needs to ensure that the Council has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards.

Setting the level of General Reserves is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the Parish Council's financial management arrangements.

Adopted by Lydiard Millicent Parish Council on