

for a future capital project or while deciding how to apply the proceeds of an asset sale or a donation.

- 5.29. In deciding whether it is appropriate to make long-term investments, the authority should follow the Guidance on local government investments issued by MHCLG with effect from 1 April 2018.
- 5.30. The authority's investment strategy will set out management arrangements for the investments held and procedures for determining the maximum periods for which funds may prudently be committed. The strategy should ensure and demonstrate that the authority has properly assessed the risk of committing funds to longer term investments and complies with legislative requirements. Long-term investments in assets whose capital values may fluctuate carry considerable risks and require active management. Investment management is a specialist area. Authorities may wish to seek independent professional assistance when developing their investment strategy.

#### Reserves:

- 5.31. 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.
- 5.32. General Reserve — 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). NRE (subject to any planned surplus or deficit) is effectively Precept\Levy less any Loan Repayment and/or amounts included in Precept\Levy for Capital Projects and transfers to Earmarked Reserves. The reason for the wide range (3 to 12 months) is to cater for the large variation in sizes of individual authorities. 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 General Reserve. In all of this it is important that each authority adopt, as a General Reserve policy, the level appropriate to their size and situation and plan their Budget so as to ensure that the adopted level is maintained. Changes in activity levels/range of services provided will inevitably lead to changes in the requisite minimum level of General Reserve in order to provide working capital for those activities.
- 5.33. Earmarked and Other Reserves — None of the above in any way affects the level of Earmarked and/or Capital Receipts Reserves (EMR/CRRs) that an authority may or should hold. There is, in practice, no upper or lower limit to EMR/CRRs 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 EMRs in particular may give rise to enquiries from Internal and/or External Auditors.