Precept and General Reserves - Explained

THE PRECEPT

The precept is the local council tax requirement required from local electors to meet the council's budget. Every local council has the power to levy a precept each financial year as a "local precepting authority". The local council precept is a component of the total council tax levied on local government electors in the local council area.

Local councils do not receive any direct funding from central government therefore are reliant on the local precept and any other income they generate from the services or facilities that they provide.

The council tax requirement is the difference between the council's estimated income and estimated expenditure for the year. The council must approve a budget before it sets a precept. The budget and precept both need to be approved at a full council meeting and minuted; the council must then manage its activities within budget.

The precept has to be set by the council before 1st March of the preceding financial year, although many billing authorities will request the information earlier.

The precept amount required is advised to the local billing authority (district, borough or unitary council), who will add this amount to the council tax bills in the local council area, and then pay that amount over to the local council.

The amount is either paid by the principal authority at the beginning of the financial year in April, or paid in 2 instalments usually in April and September. Once the precept has been notified there is no provision for it to be increased for that year.

There is also a calculation for what is referred to as the "Band D Equivalent". This is the middle band of council tax and is supposed to illustrate the amount of council tax paid on an average property in the area. It provides a measure which enables precepts across councils of different size to be compared. However, different areas have different mixes of housing which can mean that it does not reflect the actual average amount paid.

RESERVES

Local councils need to hold an amount in reserves to meet unexpected expenditure, otherwise they could run out of money before the end of the financial year.

A council should typically hold between 3 and 12 months expenditure as a general reserve. If the general reserve is too low then it may not be enough to cover unexpected expenditure or emergencies, whilst if the general reserve is too high then local electors have paid a tax which is not being used for the benefit of the local community.

Local councils have no legal powers to hold revenue reserves other than for reasonable working capital or for specifically earmarked purposes, therefore the year-end general reserve should not be significantly higher than the annual precept.

The council may have 'earmarked reserves' for specific projects, where money is allocated for a specific purpose but may not be spent in that financial year. This may include reserves to purchase or renovate a building, develop a sports facility or community centre.

Many councils also hold an 'election reserve', as all reasonable costs of holding local council elections can be fully recharged by the district or unitary council to the local council. In the case of contested elections for a council with several wards then these costs can be relatively high.

If the amount of reserves at the year-end are above a certain level in relation to the annual precept then the council must advise the external auditor of why this level of reserves is required.

Source – Good Councillors Guide on Finance and Transparency – NALC
https://www.nalc.gov.uk/publications#the-good-councillor-s-guide-to-finance-and-transparency
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