Adopted by Alnmouth Parish Council at its Meeting held on 12th May 2026: Minute 24/26

Review Date: May 2027

ALNMOUTH PARISH COUNCIL

Reserves Policy

Introduction

The purpose of this policy is to set out how Alnmouth Parish Council will determine and review the level of reserves held as part of its annual budgeting and precept-setting process, in line with the Joint Panel on Accountability and Governance (JPAG) Practitioners Guide as published and reviewed each year by the National Association of Local Councils (NALC).

The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed to meet anticipated future expenditure when calculating the budget requirement.

There is no specified minimum level of reserves that an authority should hold, JPAG advises provision for contingencies and to consider the need for reserves. It is the responsibility of the Responsible Financial Officer (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

Types of Reserve

Reserves can be categorised as Earmarked or General.

Earmarked Reserves

These reserves may be held for the following reasons:

- Renewals – to enable an effective programme of planned property maintenance, and equipment and infrastructure replacement. This forms a mechanism to smooth expenditure so that a sensible replacement programme can be achieved without the need to vary budgets or precept.
- Carry forward of underspend – where expenditure is committed to projects but cannot be completed in the planned year. Reserves are used as a mechanism to carry forward these resources.
- Insurance reserve – to enable the Council to meet the excess for claims not covered by insurance.

- Other Earmarked Reserves may be set up from time to time to meet known or predicted liabilities.

They can be used in the following way:

- Earmarked reserves will be established on a "needs" basis, in line with anticipated requirements.
- Any decision to set up a reserve must be made by the Council.
- Expenditure from Earmarked Reserves can only be authorised by the Council.
- Earmarked Reserves are not to be held to fund on-going expenditure. This would be unsustainable as, at some point, the reserves would be exhausted. To the extent that reserves are used to meet short term funding gaps, they must be replenished in the following year. However, Earmarked Reserves that have been used to meet a specific liability do not need to be replenished, having served the purpose for which they were originally established.
- All Earmarked Reserves are recorded on the accounting system by the RFO which lists the various Earmarked Reserves and the purpose for which they are held.

General Reserves

The level of General Reserves is a matter of judgement. Alnmouth Parish Council will adopt advice from JPAG which recommends reserves of between three to twelve months of net revenue expenditure with nine to twelve months being the aim for Alnmouth Parish Council.

Setting the level of General Reserves is one of several related decisions in the formulation of a financial strategy and the annual budget. The Council must build and maintain sufficient working balances to cover its known expenditure commitments.

The primary means of maintaining sufficient 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. If, in extreme circumstances, General Reserves were exhausted due to major unforeseen spending pressures within a particular financial year, the Council would be able to draw down from its Community Fund Earmarked Reserve to provide short term resources.

Even at times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay one month's salary (including PAYE/NI and pension) and agreed contract commitments at all times.

General Reserves are funds which do not have any restrictions as to their use. These reserves can be used to smooth the impact of uneven cash flows, offset the budget requirement if necessary or can be held in case of unexpected events or emergencies.

Process

A review of the Council's financial position is part of the budgeting and year end accounting procedures and identifies planned and unplanned expenditure items, thereby indicating an appropriate level of Reserves.

The decision about the level of Reserves will take place as part of the budgeting process and include consideration of:

- The "opportunity cost" of holding funds in reserve, in that these funds cannot then be spent on anything else. Given the opportunity cost of holding reserves, it is critical that reserves continue to be reviewed each year as part of the budget process to confirm that they are still required and that the level is still appropriate.
- The intention of reserves being a contingency fund for work that isn't planned for the relevant budget year (ie unfinished work from previous year(s) or urgent work that isn't foreseen).

Level of Earmarked and General Reserves

The level of financial reserves will be agreed by the Council as part of its budget-setting for the next financial year. This will then be reviewed at year-end and adjusted if necessary.