

# NEWNHAM PARISH COUNCIL

## RESERVES POLICY

### **PURPOSE**

Newnham Parish Council is required to maintain adequate financial reserves to meet the needs of the Parish Council. The purpose of this policy is to set out how the Council will determine and review the level of 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.

### **Types of Reserves**

Reserves may be categorised as general or designated/restricted/earmarked.

General reserves are funds that do not have any restrictions as to their use, whereas

Designated/restricted/earmarked reserves can be held for several reasons and use of those funds will be restricted for that agreed purpose.

### ***General Reserves***

General reserves do not have any restrictions for their use.

General 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.

The level of general reserves is a matter of judgment and so this policy does not attempt to prescribe an overall or blanket level.

It is recognised that the Council does not own or have responsibility for the upkeep of any buildings. That of itself means that the level of general reserves will be less than if buildings needed to be maintained.

The primary means of building general reserves is through an allocation from the annual budget. This is 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 designated reserves to provide short-term resources.

Setting the level of general reserves is one of several related decisions in the formulation of the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Financial Risk Assessment.

Even in times when extreme pressure is put on the Council's finances the Council must keep a minimum balance sufficient to pay operational costs to staff, contractors and utility service in general reserves at all times.

Subject to review each year, the Council considers that a minimum of 3 months of 25% of the annual precept, whichever is the greater, is sufficient.

### **Designated Reserves**

Designated reserves, sometimes called restricted or earmarked reserves, are established on a "needs" basis, in line with anticipated requirements.

### **Setting Up & Spending reserves**

Any decision to set up a reserve must be made by the Council. Expenditure from reserves can only be authorised by the Council.

Reserves should not be held to fund ongoing 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 the following year.

However, designated reserves that have been used to meet a specific liability (or project) would not need to be replenished, having served the purpose for which they were originally established.

Reviewing the Council's Financial Risk Assessment is part of the budgeting and year-end accounting procedures and identifies planned and unplanned expenditure items and thereby indicates an appropriate level of reserves for the Council.

### **Opportunity costs of holding reserves**

In addition to allowing the Council to manage unforeseen financial pressures and plan for unknown or predicted liabilities, there is a benefit to holding reserves in terms of the interest earned on funds which are not utilised. The investment income is fed into the budget strategy.

However, there is an "opportunity cost" of holding funds in reserves, in that these funds can only be spent on matters for which they are intended.

Given the opportunity costs 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.

### **Policy in Practice**

The Council will hold reserves for these three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves;
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;
- A means of building up funds (designated reserves) to meet known and predicted requirements.

**Adopted 5 Jan 2026**