





# KINGSMEAD

## PARISH COUNCIL

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## **1. Introduction**

- 1.1 The Parish Council is required by statute to maintain financial reserves sufficient to meet the needs of the organisation and in addition has statutory limitations on how it spends certain receipts which it must ensure are accounted for separately to the council's general funds.
- 1.2 Whilst there is no statutory minimum (or maximum) level of reserves, the council has no power to hold revenue reserves other than those for reasonable working capital needs or specific earmarked purposes.
- 1.3 The Joint Panel on Accountability and Governance (JPAG) Practitioners' Guide, which sets out the 'proper practices' for how the council must maintain its accounts, recommends that the minimum level of general reserves should be between three and twelve months of net revenue expenditure. For an authority of the council's size, it states that the lower end (three months, or 25%) is appropriate.
- 1.4 The council's Internal and External Auditors review the council's reserves and their justification annually.
- 1.5 This policy sets out how the council will manage its reserves.

## **2. General Reserves**

- 2.1 The general reserve is not ringfenced (earmarked) for any specific expenditure. Its purpose is to cover unexpected and/or emergency expenditure; it is not intended to fund on-going expenditure.
- 2.2 The general reserve will be replenished as part of the budget process in any year where it has been utilised for unexpected/emergency expenditure.
- 2.3 The council will hold a general reserve of at least 25% of its net revenue expenditure (NRE). This is the difference between its budgeted income and expenditure less any budgeted capital expenditure, expenditure from earmarked reserves and budgeted transfers to reserves.
- 2.4 The Responsible Financial Officer will include a proposed amount of General Reserves in the annual forecast budget based on the recommendation above and taking into account any other local factors that might have a bearing on the amount of reserves it is prudent to hold for the forthcoming financial year.
- 2.5 The use of the General Reserves may be requested by any committee of the council but must be agreed by full council before an amount is drawn.
- 2.6 In extreme circumstances, where the General Reserves are exhausted due to major unforeseen spending pressures within a particular financial year, the council will be able to draw down from its Earmarked Reserves to provide short term resources.
- 2.7 Even at times of extreme pressure on the council's finances, the council must keep a minimum balance sufficient to pay one month's salaries to staff in General Reserves at all times.
- 2.8 The balance of General Reserves will be reported monthly

### **3. Earmarked Reserves**

- 3.1 Earmarked Reserves are amounts of money set aside in order to build up funds over several years to deliver a defined project or for known significant expenditure. For example, such reserves can be allocated to pay for future rents, leases or election costs; to save for long-term projects such as the purchase of significant assets; to cover any excess payment in the event of an insurance claim; to provide for the eventual replacement of small items of equipment such as computers.
- 3.2 Each committee can request that funds are earmarked for specific projects during budget setting and on agreement by full council, earmarked reserves will be allocated to the committees' budget heading.
- 3.3 Each amount earmarked will be shown as a separate line in the forecast budget and the balances reported quarterly to the Finance Committee and to the budget holding Committee at each of their meetings.
- 3.4 Earmarked Reserves may be drawn down by the committee responsible for the allocated budget.
- 3.5 The purpose and level of Earmarked Reserves will be reviewed annually. The balance of the fund will be carried forward to the next financial year unless the purpose of the allocation has concluded or is no longer considered necessary.
- 3.6 Earmarked Reserves will only be used for the purpose for which they have been allocated. Any excess funds remaining at the conclusion of the project or purchase will be returned to General Reserves