

## **MAYFIELD PARISH COUNCIL**

### **FINANCIAL RESERVES POLICY**

#### **INTRODUCTION**

Local councils have no legal powers to hold financial reserves other than for reasonable working capital or for specifically earmarked purposes. As a matter of principle the year-end General Reserve should not normally be significantly higher than the annual precept, whilst acknowledging that circumstances can arise when it may be higher. It is generally accepted that General Reserves usually lie within the range of three to twelve months of net revenue expenditure, (operating costs) and it is advised that smaller councils err on the higher side of this advice. Earmarked Reserves may be held for specific projects where money is allocated for a specific purpose but may not be spent in the financial year. Total reserves, General plus Earmarked, should not normally exceed twice the annual precept.

#### **PURPOSE**

Mayfield 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 Clerk/Responsible Finance Officer to advise the Council about the level of Reserves and to ensure that there are procedures for their establishment and use. The determination of the Council's Reserves will be consistent with meeting the Council's strategic objectives as currently set out in the Development Plan

#### **TYPES OF RESERVES**

Reserves may be categorised as General or Earmarked. Earmarked Reserves can be held for several reasons and are intended to be restricted for that agreed use. General Reserves are funds that do not have any restrictions as to their use. These Reserves can be used to smooth the impact of uneven cash flow, offset the budget requirement, if necessary, or can be held in case of unexpected events or emergencies.

**Earmarked Reserves** – 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 Parish Council. Expenditure from Reserves can only be authorised by the Parish Council. Reserves should not be held to fund routine 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 (or project) would not need to be replenished, having served the purpose for which they were originally established. Where the purpose of an Earmarked Reserve becomes obsolete, or where there is an over-provision of funds, the excess may, on the approval of the Council, be transferred to other budget headings within the revenue budget or to General Reserves or to one or more other Earmarked Reserves.

Earmarked reserves will be held for the following main reasons:

- New projects

- To plan and finance an effective programme of equipment replacement and property maintenance

**General Reserves** – the level of General Reserves is a matter of judgment and so this policy does not attempt to prescribe an overall level. The primary means of building General Reserves will be through allocation of surplus from the annual budget. The Council must build and maintain sufficient working balances to cover the key risks it faces, as expressed in its Risk Management Scheme, which is reviewed annually. 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 Earmarked Reserves 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 three months' salaries to staff, in General Reserves at all times.

General Reserves will be held for the following main reasons:

- To provide contingency to deal with unexpected events or emergencies
- To cushion the impact of uneven cash flow
- To be spent or earmarked on larger projects at the discretion of Members, subject to approval by Council, if there is a shortfall for an earmarked project

#### **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 – this forms part of the General Reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of the General Reserves
- A means of building up funds to meet known or predicted requirements – Earmarked Reserves.

This Policy will be reviewed regularly as part of the review of Financial Regulations and reported to the Parish Council as part of the budget setting process. This Policy may only be amended or varied by resolution of full Council.

Approved April 2022