



# RESERVES POLICY

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MPC Reserves Policy

# MARDEN PARISH COUNCIL

## RESERVES POLICY

### Parish Council Reserves

Marden Parish Council (MPC) needs to maintain reserves to protect against risk, ensure contingencies are in place and to support investment in future projects which are beneficial to the parish. Sections 31A, 32 42A and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Responsible Finance Officer (RFO) has a duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement.

The Reserves Policy presents information about the requirements to maintain appropriate financial reserves and provides details on the types of reserves and current and predicted balances. MPC manages risk by assessing the potential impacts of future events, based on the likelihood that they may occur and the severity of any impact. Mitigating actions are then identified to reduce the exposure and appropriate plans are put in place.

The purpose of this Policy is to enable the Finance Committee to review the level of reserves to ensure they meet the current and future needs of MPC.

The assessment of the adequacy of MPC's balances and reserves is based on the guidance note on LAAP BULLETIN 99 Local Authority Reserves and Balances July 2014), which whilst there is not a statutory requirement, is considered to set out current best practice with regard to balances and reserves. The guidance states that no case has yet been made to set a statutory minimum level of reserves and that each local authority should take advice from its RFO and base its judgement on local circumstances (para 20).

### Types of Reserves

Marden Parish Council maintains two types of reserves:

#### Earmarked Reserves

These provide a means of accumulating funds, for use in a later financial year, to meet known or planned policy initiatives. Earmarked Reserves will increase through decisions of MPC and will decrease as they are spent on their specific intended purposes.

The purpose of an Earmarked Reserve is to set aside amounts for planned future expenditure (capital budget) or as a contingency against a specific situation occurring (revenue budget). Once an Earmarked Reserve has been established by MPC it is the responsibility of the RFO to ensure funds are spent in line with their purpose. The purpose of each Earmarked Reserve should be reviewed annually to ensure that it is still relevant. If a specific reserve is no longer considered relevant or there is an overriding financial requirement to fund a priority elsewhere virement can be considered.

### General Reserves

This represents the non-ring fenced (not earmarked) balance of MPC's funds. The main purposes of the General Reserves are firstly to operate as a working balance to help manage the impact of uneven cash flows and secondly, to provide a contingency to cushion the impact of emerging or unforeseen events or genuine emergencies. In general, a robust level of reserve should be maintained and take account of operational and financial issues facing MPC. A well-run council with a prudent approach to setting its budget will each year consider its level of general reserves. In assessing the level of MPC's general reserves, account needs to be taken of the risks facing the Council in terms of any significant unforeseen revenue budget expenditure requirements.

Further major elements which could impact adversely on future precepts are:

- Capping of parish council precepts by central government
- Services devolved from Maidstone Borough Council or Kent County Council

### **General Reserves – Risk Assessment**

Identifying the risks allows MPC to take account of the circumstances around current structural change due to service provision and economic circumstances.

Risks can be identified as; risks from potential one-off events; risks which will have general financial consequences and actions that need to be in place to minimise the potential for financial support.

### **Assessment of Potential Risks – Not Covered by Insurance**

There are a number of potential risks which are not covered by insurance and would be matters for consideration by Full Council if the situation arose for example:

- Loss of staff including long term sickness: Council could not function effectively; additional advertising costs to attract staff; salaries for locum staff
- Major loss of service through fire/flood structural damage: Premises not operational
- Insurance Claims: insurance claim not met; ensure good claims management
- Uninsurable losses
- ICT Security/data corruption: Loss of service; robust security policies, backup, firewalls; off-site electronic document storage
- Election Reserve: Reserve to meet potential future By-Election costs
- Unanticipated Legal costs: includes legal costs that cannot be recovered

### **Role of Responsible Financial Officer (RFO)**

It is the responsibility of the RFO to advise the Parish Council about the level of reserves that it should hold and ensure that it has clear protocols for their establishment and use.

There is no statutory minimum but there are four significant safeguards in place against the Parish Council over committing itself financially:

- The balanced budget requirement.
- RFO s114 Powers.
- The External Auditors responsibility to review and report on financial standing.
- The interim and year-end audit reports from the Parish Council's Internal Auditor

MPC, on the advice of their RFO and guidance of the Internal Auditor, is required to make their own judgements on the level of reserves, taking into account all relevant local circumstances.

It is the responsibility of the RFO to ensure reserves are spent in line with their purpose. Where expenditure is planned in future accounting periods, it is prudent to build up reserves in advance.

The RFO has a fiduciary duty (the highest standard of care) to local taxpayers and must be satisfied that the decisions taken on balances and reserves represent responsible stewardship of public funds. It is recommended that the level of General Reserves should not fall below the level of current risk, estimated to total 20% of the annual revenue budget (excluding Section 106 expenditure).

### **General Reserves Target**

MPC has agreed that it would be prudent to aim for 25% of the annual revenue budget (not including Section 106 expenditure) be kept as General Reserves.

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