South Hykeham Parish Council reserves policy
Revised reserves policy adopted at the meeting of 8th April 2026

Introduction

South Hykeham Parish Council is required to maintain adequate financial reserves to meet the needs of the organisation. 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 (RFO) to advise the Council about the level of reserves and to ensure that there are procedures for their establishment and use.

The Council will hold reserves for the following main purposes:

• A working balance to help cushion the impact of uneven cash flows, provide contingency, and avoid unnecessary temporary borrowing; following guidance and recommended good practice (e.g. JPAG Practitioners Guide, NALC, SLCC)

• Earmarked funds to meet known or predicted specific requirements or improvement projects, and earmarked funds for statutory reasons. Setting aside funds over a period of time to meet known future expenditure reduces the impact of meeting the full expenditure in one year.

Types of Reserves

Reserves can be categorised as general or earmarked.

Earmarked reserves can be held for several reasons:

• Renewals – to enable services to plan and finance an effective programme of equipment and infrastructure replacement. These reserves are a mechanism to smooth expenditure so that a replacement programme can be achieved without the need to vary budgets.

• Carry forward of underspend - some services commit expenditure to projects, but if the allocated budget cannot be spent in that financial year. Reserves are used as a mechanism to carry forward these resources.

• Insurance reserve – to enable the Council to meet the excesses of claims not covered by insurance.

• Other earmarked reserves may be set up from time to time to meet known or predicted liabilities or project expenditures.

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. This policy on the establishment, maintenance and adequacy of reserves and balances will be reviewed annually.

GENERAL RESERVE: The general reserve, commonly termed the 'working balance', is a balance on the council's revenue account which is not held for any specific purpose other than to cushion the council's finances against any unexpected short-term problems in the council's cash flow. Sometimes mistakenly called a 'general reserve', the general fund (plus or minus any budget under/overspend) is only designated 'General Reserve' at year end for accounting purposes. The level of general funds or working balances is a matter of judgement and this policy does not prescribe a specific level. However, Council must maintain sufficient working balances to cover the key risks it faces, as expressed in its financial risk assessment. The levels may change from year to year. Guidance states that 'a council should typically hold between 3- and 12-months expenditure as a general reserve' (Good Councillors Guide on Finance & Transparency 2017).

Financial Risk Management: The general fund balance is to be maintained at a level based upon a financial risk assessment carried out by the Responsible Finance Officer (RFO) when setting the budget for the forthcoming year. The RFO will take account of the strategic, operational, and financial risks facing council and base the assessment on Council's areas of income and expenditure and consider any provisions and contingencies that may be required. A surplus on the general fund above the agreed required balance may be used to fund capital expenditure, be appropriated to earmarked reserves, or used to limit any increase in the precept for the subsequent year. If the general fund becomes depleted below the minimum recommended by the RFO and accepted by Council, the fund will be built up in subsequent years (primarily through an allocation from the annual budget) to the agreed minimum balance.

EARMARKED RESERVES: Earmarked Reserves represent amounts that are generally built up over a period which are earmarked for specific items of expenditure to meet known or anticipated liabilities or projects. There will generally be a specific reason & purpose, limitations on how & when the reserve can be used, and management & control through annual review. The level of earmarked reserves should be reviewed by Council as part of the annual budget setting process in December/January to ensure continuing relevance and adequacy.

STATUTORY EARMARKED RESERVES: Local Authorities also hold reserves that arise out of the interaction of legislation and proper accounting practices. At South Hykeham Parish Council this is: Community Infrastructure Levy (CIL) Neighbourhood Fund Earmarked (Statutory) Reserve – this reserve holds the proceeds from the CIL Neighbourhood fund paid to South Hykeham Parish Council by North Kesteven District Council. It can only be used in accordance with CIL regulations to be confirmed by NKDC before any spending takes place.

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 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 would not need to be replenished, having served the purpose for which they were originally established.

All Earmarked Reserves are recorded on the budget report sheet which is held by the Responsible Financial Officer, and which lists the various Earmarked and other Reserves and the purpose for which they are held.

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.

At the meeting of the Council on 8th April 2026, the following levels of reserves were agreed:

General reserve (at least 3 months' running costs	£12,734.14	
Election Reserve	£4,000.00	
Community Speedwatch initiative	£1,500.00	Earmarked reserve
Play /amenity equipment	£3,500.00	Earmarked reserve
Laptop/IT and printer replacement	£631.00	Earmarked reserve
CIL infrastructure initiative	£3,463.44	Earmarked reserve
Bridleway/infrastructure reserve	£15,000.00	Earmarked reserve
(withheld until final section of the bridleway is completed once the principal authority LCC has reached agreement with the landowner)		
S106 bus shelter (funds transferred from LCC to Parish Council for erection of replacement bus shelter	£335.23	Earmarked reserve
10 Year Strategy bus shelter reserve	£6,895.00	Earmarked reserve

Total reserves as at 31st March 2026 £48,058.81

The above levels of reserves were agreed and this document adopted by the Parish Council at the meeting on the 8th April 2026 to be reviewed again in a year's time when setting the budget for the financial year 2026/27.

Chairman…………………………………………………………………………………….

Date……………………… ………………………… …………………………………..