



**Purpose:**

The purpose of the Reserves policy is to maintain an adequate level of funds to support the ongoing operations of the Board and to provide a source of internal funds for operational priorities such as watercourse maintenance, pumping station running costs and repair, capital replacement and improvement programmes and opportunity and capacity building.

The Reserves policy will be implemented in association with other governance and financial policies of the Board and is intended to support the goals and strategies contained in these policies, and in strategic and operational plans.

**Definitions:**

Revenue Account Balance – Operating Reserve

The Operating Reserve is intended to provide an internal source of funds for the day to day management of the Board including a sudden increase in expenses, one-time unbudgeted expenses, unanticipated loss of funding and uninsured losses. The Operating Reserve will be reviewed regularly to ensure sufficient funds are available. The Operating Reserve is defined as the designated fund for the day to day management of the Board.

New Works and Plant Account Balance - Capital Balance

The Capital Balance will provide a source of funds for the capital replacement and/or improvement of pumping stations, pipelines and plant and equipment necessary for the effective operation of the Board's functions. New plant and equipment will be funded from the Capital Balance. The Board will to seek to borrow funds from an appropriate source prior to the intended replacement of a major asset.

Commuted Sum Account Balance - Committed Reserves

The Committed Reserves are monies received solely from third parties for the future maintenance and replacement in perpetuity of an asset.

Asset Replacement Account Balance – Capital Reserves

The Capital Reserves are monies received as a result of the disposal or sale of land and buildings owned by the Board.

**Goals:**

Revenue Account Balance - Operating Reserve

The minimum amount to be designated as Operating Reserve will be an amount sufficient to maintain the annual ongoing operations and programmes of the board. Fundamentally it will be based on the accounting concept of "Going Concern" which



assumes that a business entity will continue to operate in the foreseeable future without the need or intention on the part of management to liquidate the entity or to significantly curtail its operational activities. Therefore, it is assumed that the entity will realise its assets and settle its obligations in the normal course of the business. -

<http://accounting-simplified.com/financial-accounting/accounting-concepts-and-principles/going-concern>.

The Operating Reserve will be reviewed and adjusted in response to both internal and external changes.

The target Operating Reserve is equal to 40% of average operating costs. The calculation of average operating costs includes expenditure on pumping stations, watercourse maintenance, administration, other assets and borrowing charges. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average expenditure includes any transfers to the New Work and Plant Account, but excludes any third party funded capital schemes.

The target level of the Operating Reserve will be calculated each year and presented with the annual budget for approval by the Board and included in the regular financial reports (Five Year Budget Estimates).

#### New Works and Plant Account Balance - Capital Balance

The target amount of the Capital Balance will be determined by the capital replacement programme and be of a sufficient level to meet the Board's current and future requirements. The amount will be calculated each year and presented with the annual budget for approval by the Board and included in the regular financial reports (Five Year Budget Estimates).

#### Commuted Sum Account Balance - Committed Reserves

The balance in this account will be invested to achieve the best interest rate possible until it is required for funding the replacement/refurbishment of the station.

Any residual balance will then be invested as above to build balances in preparation for the next replacement/refurbishment.

The target amount of the Committed Reserve will be determined by the annual expenditure on undertaking the works as well as taking into account the projected future costs.

#### Asset Replacement Account Balance – Capital Reserves

Any proceeds of sale will be invested to achieve the best interest rate possible until required for funding the replacement/refurbishment of the Board's assets. Monies are then transferred to the Capital Balance (NW&P)

These funds will only be used for future capital replacement works.



**Accounting for Reserves:**

The Board's Reserves will be recorded in the financial records as Reserves. Reserves will be held jointly with general cash and investment accounts of the Board.

**Funding of Reserves:**

The Operating Balance will be funded by the Agricultural ratepayers and Special Levy paying councils together with bank interest, rental and other income.

The Capital Balance will be funded by setting aside funds from the Operating Balance, public works loans, bank interest, rechargeable scheme works and grant monies.

The Committed Reserve will be funded by annual bank interest generated from the balance together with funds transferred from the Operating Balance if this is deemed necessary.

The Capital Reserve will be funded by sale of Board owned land and property together with the annual bank interest that it generates.

**Use of Reserves:**

Use of the Operating Balance requires three steps:

1. Identification of appropriate use of reserve funds.

The Finance Officer will prepare an annual budget for the Board that identifies the proposed income and expenditure for the forthcoming year. This step requires analysis of the current year's expenditure to date and projected out turn figures along with the following years estimate costs.

The Finance Officer will liaise closely with the Engineer and Asset Manager to verify the planned capital expenditure and additional maintenance works that will be likely in the forthcoming years.

The Board will meet to discuss the proposals and to consider any changes that are deemed necessary.

The Budget is compiled in conjunction with the Board's five year budget estimate where the future impact of the budget can be assessed to ensure it is in keeping with this Reserve Policy.

The Board will be asked to approve the budget and set the level of drainage rates for the forthcoming year.



2. Authority to use Reserves.

Refer to the Board's Financial Regulations with regard to budgetary expenditure and unplanned expenditure.

3. Reporting and monitoring.

The Finance Officer is responsible for assuring that the Reserve funds are maintained and used only as described in this Policy. Upon approval for the use of Reserve funds, the Finance Officer will maintain records of the use of funds (Budget Estimate, Five Year Budget Estimate and Annual Accounts) and plan for increases, if required. The Finance Officer will provide details to the Board of the progress to restore the Reserves to the target minimum amount, if required.

**Relationship to Other Policies:**

- The Board maintain other approved policies, which may contain provisions that affect the creation, sufficiency, and management of the Reserve Policy. This policy will therefore adhere to these provisions.

**Review of Policy:**

This Policy will be reviewed triennially by the Finance Officer, or sooner if warranted by internal or external events or changes. Changes to the Policy will be recommended by the Finance Officer to the Board.

Approved by the Scunthorpe and Gainsborough Water Management Board at their meeting held on 20 November 2014.



Appendices

A . Pumping stations under the operation of the Board.

No	Pumping Station
1	Burringham
2	Flixborough
3	Lysaghts
4	Black Bank
5	East Butterwick
6	Susworth
7	Jenny Hurn
8	Pauls Malt
9	Ravensfleet
10	Whoofer



Appendices

B. Other Property owned by the Board

1. Ravensfleet Cottage 0.09 ha
2. Riddings Lagoon 4.5 ha
3. Westcliffe Lagoon 4.7 ha
4. Healey's Drain 8.35 ha
5. Other Land 3.32 ha.

