



# Sow & Penk

## Internal Drainage Board

### **Reserves Policy version 1-2024**

#### **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, opportunity and capacity building and unforeseen expenditure.

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 Balance

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

##### Doxey and Tillington Marshes Account Balance

The Doxey and Tillington Marshes Balance will provide a source of funds for the ongoing maintenance and future capital replacement of the assets installed on the Marshes.

#### **Goals:**

##### Revenue Account Balance - Operating Balance

The minimum amount to be designated as Operating Balance 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>.

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

The target Operating Balance is equal to 50% of average operating costs. The calculation of average operating costs includes expenditure on watercourse maintenance, administration and environmental works. Depreciation, in-kind, and other non-cash expenses are not included in the calculation. The calculation of average expenditure includes any transfers to the Doxey and Tillington Marsh Account.

The target level of the Operating Balance 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).

### **Doxey and Tillington Marshes Account Balance - DTM Balance**

The target amount of the DTM Balance will be determined by the maintenance and asset 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).

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

### **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.

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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 reports to the Board of 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 in 2027 by the Board and Finance Officer, or sooner if warranted by internal or external events or changes.

Approved by the Sow and Penk Internal Drainage Board at their meeting held on 28 May 2024.