Vale of Pickering
Internal Drainage Board

Reserves Policy

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1. Executive Summary

1.1. Reserves are an essential element of good financial management of the Board. Having cash reserves at the bank helps the Board meet unplanned spending commitments brought about by things like extreme weather

1.2. The level that reserves are held at are appropriate to the size and operational makeup of the Board.

2. Types of Reserve

2.1. The reserve represents money the Board has at the bank that falls into three broad categories:

a) *Unallocated Reserves & Disaster Contingency*

Reserves that are held at the bank where there is no plan to spend these in the current year which may be represented as indicative amounts set aside for future, non-specific, investment in capital, higher than normal operational costs associated with things like heavy rainfall and lower level emergency response. However, in the event of a disaster, (typically when a major [flooding] incident is declared) funds may be used immediately to offset resulting extraneous costs.

b) *Committed Reserves*

Reserves that are held for specific expenditure that the Board is committed or contracted to honour in future years. This type of reserve should be avoided if possible, meaning the Board should resist arrangements with funders that prescribe ringfenced accounting treatments e.g., ringfenced commuted sum arrangements or bonds. In certain circumstances where prescribed in a grant memorandum, contract or to meet a future project specific capital funding commitment it may be necessary to operate this type of reserve.

c) *Discretionary Funding*

Discretionary funding is funding taken either from a surplus and/or reserve after other expenditure is budgeted for. Typically, the Board can decide to accelerate spend on a revenue or capital item in the current financial year which may be partly funded from reserves. In these cases, the budget will show accrued income funded from reserves. Balancing adjustments will then be made at year end as part of the annual accounts. In simple terms the Board can make a discretionary decision to move money from reserves to meet a deficit in the annual budget on a planned basis.

3. Levels of Reserve

3.1. The primary purpose of unallocated reserves is to protect against unplanned expenditure during any financial year, it is for this reason the Board should judge what its unplanned level of financial exposure is likely to be. This depends on the location of the Board and the number of assets.

3.2. There have been 4 major [flooding] incidents declared by the local emergency planning service in the consortium area since 2007. The lower Aire flooding event of 2020 cost the Cowick and Snaith IDB in the order of £100k, and although some of these funds were recovered from national revenue, there is no guarantee of this in the future, the cost of a large event in a larger board area may be proportionately much higher than this. Disaster events of this type are difficult to plan for and are out of the Boards control in any case.

3.3. Exceptional inflationary pressures in 2022 have shown the impact on energy costs, at the time this policy was written it is possible the Boards energy costs may triple within a year. The impact of these cost rises would be exacerbated during a flood event.

3.4. There is no exact science to setting an unallocated reserves amount, subjective operational judgement suggests the Board should plan to hold a minimum of 50% of its operating budget[1] in reserves if affordable.

[1] Net of shared services costs and capital expenditure