

Background

There are a number of reasons the LEP holds reserves, and these depend on the future activity undertaken by the LEP, how it operates and funds its operations.

- To fund unexpected expenditure – such as retrospective VAT or unexpected legal costs
- To fund shortcomings in income, when income does not reach our expected levels – such as Government reduce core funding in future years
- To fund LEP Schemes – challenge funds
- To retain in the event of costs required for winding up the company

Using a risk identification approach, we can understand the income streams and their risk profile, the degree of commitment to expenditure and the risk environment we operate within in.

All LEP finances are held and administered by the Accountable Body (Lincolnshire County Council).

Purpose

The purpose of the Reserves Policy for the Greater Lincolnshire LEP is to ensure the stability of the ongoing operation of the LEP and to provide a source of funds for projects. The Reserves Policy will be implemented along with other governance and policies of the LEP and is intended to support the goals and strategies within the Business plan.

Sources of Financial Reserves

1. Operating fund

Core operating funding has not always been fully spent on an annual basis building up a general reserve.

2. Funding pots (LEP awarded funds)

LEP administered funds where not all funds are allocated / loaned and an under-spend/ reserve remains. This includes the Growing Places Fund (Invest and Grow in Lincolnshire) which is a loan fund managed by the LEP. This is an evergreen loan fund with interest paid on low interest loans with interest funding being available for any identified LEP activity.

3. Funding pots (LEP bid funds)

Funds secured by the LEP against specific projects/ areas. Unlikely to have any underspend as paid against project profiling but still possible with project adjustments or fall out alongside changing regulations for LEP usage.

4. Interest accrued

See LEP Interest Policy.

5. Asset Transfers

Occasionally other organisations will merge or fold with some of the functions and finances transferred into the LEP. This occurred with the previous Lincolnshire Enterprise transferring assets initially to Lincolnshire County Council and subsequently to the LEP.

6. Organisational Transfers

Continuing organisations brought under the umbrella of the LEP continuing to deliver specific functions. This would include organisations such as the Local Transport Board (LTB) or Skills Funding Agency (SFA).

Identification Process

Identification of the use of reserves requires three steps:

1. Identification of appropriate use of reserves - The LEP Director will identify the need for access to reserve funds and confirm the use is consistent with the purpose of the reserves as identified in this policy. A business case will be developed to use the funds.
2. Authority to use reserves - Authority for the use of reserves is delegated to the LEP Chair, Chair of the Finance and Audit Committee and the LEP Director. The decision will be based upon the business case and use of reserves will be reported to the Board and the Finance and Audit Committee as part of the regular financial reporting. Any reserves previously committed should remain for that purpose.
3. Reporting and monitoring - The Accountable Body is responsible for ensuring that the Reserve Funds are maintained and used only as described in this policy. Upon approval of the Reserve Funds, the Accountable Body will maintain records of the use of the funds and plans for replenishment. The Accountable body will provide regular reports to the Finance Committee and the Board

Proposed Reserve Funds

1. Operating Reserve

Retain 50% of our current funding model in an Operating Reserve for a potential change in the operating model.

The operating reserve is intended to provide an internal source of funds for situations such as increase in expenses, one time unbudgeted expenses, unanticipated loss in funding or legal expenses. The minimum amount of operating reserves shall be equal to the operation of the company for a period of six months. The amount of operating reserve will be calculated each year after approval of the annual budget, and reported the finance and audit committee, and board in the regular reports.

2. Opportunity Reserve

Remainder of uncommitted reserves to be used for this purpose. The opportunity reserve is intended to provide funds to meet the targets of the LEP and the Strategic Economic Plan such as challenge funds, or feasibility funds to unlock strategic schemes across Greater Lincolnshire. Board Directors and LEP Officers can develop ideas to meet the criteria of this

reserve, and consideration will be given to leverage, additionality, impact, and strategic fit.

It is also intended as a source of internal funds for organisational capacity building such as staff and board development, research and development.

Accounting for Reserves

The reserve funds will be recorded in the financial records as LEP Operating Reserves. A statement of reserves will be provided by the Accountable Body annually or upon request by the Finance and Audit Committee.

Review of Policy

This Policy will be reviewed annually by the Finance and Audit Committee and any recommended changes approved by the LEP Board of Directors. The policy should be reviewed sooner by the Finance and Audit committee if warranted by internal or external events or changes.

The process will be that the Finance and Audit Committee debate and recommend a reserve policy for the company to adopt at a future board meeting, and the Accountable Body be asked to implement the reserves policy. The monitoring of the policy should be undertaken by the Finance and Audit Committee, and the company should consider the policy annually.

Policy 8: Financial Reserves Policy
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