

All Saints, Clifton

Reserves Policy

Scope
This reserves policy explains to existing and potential funders, donors, beneficiaries and other stakeholders why we are holding a particular number of reserves. It gives confidence to stakeholders that our finances are being properly managed and will also provide an indicator of future funding needs and our resilience.

Oversight
Once a reserves policy is a living document, so describes the process we will follow in creating it. The amount held in reserves will be monitored during the course of the year as part of our budgetary process and financial monitoring.

Reserves

Reserves. Are that part of our unrestricted funds that is freely available to spend on any of our purposes. The items excluded from reserves are:

- tangible fixed assets used to carry out the charity's activities, such as land and buildings.
- programme-related investments those held solely to further the charity's purposes.
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income.
- commitments that have not been provided for as a liability in the accounts.

Restricted Funds. Fall outside the definition of reserves, but the nature and amount of such funds may impact on a charity's reserves policy. Where significant amounts are held as restricted funds the nature of the restriction should be considered, as such funds may reduce the need for reserves in particular areas of the charity's work.

Reserves Held by Subsidiaries. Where group accounts are prepared, the annual report will provide a narrative of the group's activities. In particular, the amount of reserves stated must take account of the net assets of subsidiaries.

Developing Our Policy
There is no single method or approach to setting a reserves policy and the right approach depends on the size, complexity of activities, legal structure and the nature of funds received and held by our charity. The process we use involves:

- Consideration of the nature of the funds received and held by the charity:
  - Are the funds unrestricted or restricted income?
  - Is an endowment an expendable endowment or permanent endowment?
  - Understanding the nature of the funds allows trustees to identify unrestricted funds which can be spent on any purposes of our charity.

Including future budgets and future projects or spending plans that cannot be met from the income of a single year, and uncertainties we may face in the future, such as the need to hold some reserves to meet an unexpected call on funds or opportunities that may present themselves.

We will use the above process to identify why reserves might need to be held and to decide the amount of reserves needed to operate effectively. We use the Charity Commission guidance for Trustees on reserves as set out below :

Question 1. Does your charity need to keep reserves?
The basis of a good reserves policy is thinking through exactly why you might need to hold back some funds as reserves. In a small charity, with a simple structure and uncomplicated activities, the reasons might include:

a) The risk of an unforeseen emergency or other unexpected need for funds, eg an unexpected large bill or finding 'seed-funding' for an urgent project
b) Covering unforeseen day-to-day operational costs, eg employing temporary staff to cover a long-term sick absence
c) A source of income, eg a grant, not being renewed. Funds might be needed to give the trustees time to take action if income falls below expectations
d) Planned commitments, or designations, that cannot be met by future income alone, eg plans for a major asset purchase or to a significant project that requires the charity to provide 'matched funding'
e) The need to fund short-term deficits in a cash budget, eg money may need to be spent before a funding grant is received
If, after considering the above, you think that reserves are needed, go to question 2. If you conclude that your charity does not need to hold any reserves, then you must explain that in your annual report.

Question 2. How much do you need in reserve?
The reserves level may be a target amount or a target range. For example, for each reason set out in question 1:

a) An amount might be needed to meet an unforeseen emergency or other unexpected need - consider risks and how much might be needed for such contingencies; this will involve judgment of events that may occur and their likelihood
b) Look at your expenditure budget - do you need a small contingency fund to meet unforeseen operational costs?
c) Uncertainty over future income might mean having reserves equivalent to a number of weeks of income equivalent to a range of £x to £y, to allow time to develop new sources of income or to cut-back on related expenditure
d) A planned spending commitment which cannot be met from future income would imply a need for a specific sum to be set aside - often this amount will be included within designations in accounts
e) An amount might be needed to cover 'troughs' in the cash budget - review budgets to ascertain how much might be needed

In summary, the financial risks you identify should influence the amount of reserves you target to hold and be explained in your reserves policy.

Question 3. Have you got any funds in reserve at the end of the year?

The final step is to compare what you might need in reserve with what you actually hold. You should:

- *calculate the amount of any reserves according to the definition of reserves given in section 3.1 of the guidance*
- *state the amount of reserves held and compare with the target amount or target range set for reserves*
- *explain any shortfall or excess in reserves against target set*
- *explain any action being taken or planned to bring reserves into line with your target*

Where the difference is small, no action may be needed.

Information about the reserves policy and the level of reserves held must be included in the trustees' annual report.

Levels of Reserves

Our target level of reserves may be expressed as a target figure or a target range and will be informed by:

- Our forecasts for levels of income for the current and future years, taking into account the reliability of each source of income and the prospects for developing new income sources
- Our forecasts for expenditure for the current and future years on the basis of planned activity
- Analysis of any future needs, opportunities, commitments or risks, where future income alone is likely to fall short of the amount of the anticipated costs
- Assessment, on the best evidence reasonably available, of the likelihood of a shortfall arising which means that reserves are necessary, and the potential consequences for the charity of not being able to make up the shortfall.

Monitoring of Reserves

We will keep our reserves policy and the level of reserves held under review, monitor the level of reserves held throughout the year to establish the reason for any significant difference with the target level set. If reserves during the year are below target or exceed target, we will consider whether this is due to a short-term situation or a longer-term issue, and take any appropriate action.

Annual Reporting

We will include in our annual report our policy on reserves, stating the level of reserves held and why these are held. If material funds have been designated, the reserves policy statement will quantify and explain the purposes of these designations and, where set aside for future expenditure, the likely timing of the expenditure.

We will ensure that our reporting of our reserves policy meets the requirements of the Charities Statement of Recommended Practice (SORP) (FRS 102) and the requirements of the Regulations.

Investing Reserves

When significant resources are held in reserves from year to year, the trustees should consider whether some or all of the reserves can be invested to obtain a financial return for the charity. In making the investment decision, the trustees should consider when the reserves might be needed (liquidity of the investment) and the acceptable level of investment risk.

Version Control - Approval and Review

Version No	Approved By	Approval Date	Main Changes	Review Period
1.0			Initial draft approved	Annually