

Reserves Policy

What is the TBC Reserves Policy?

“TBC aims to maintain a general reserve of unrestricted funds sufficient to meet its financial, legal and moral obligations to its service users, employees and volunteers and to all relevant authorities.”

What are reserves and why does TBC need them?

Reserves are a parcel of unencumbered assets that an organisation maintains over and above those required for the day to day operations.

Bumps in the road

Reserves allow the organisation to deal with any ‘bumps in the road’, such as sudden and unexpected reductions in income or large items of expenditure that were not budgeted for.

It is typical for a trading organisation, including a charity, to maintain a **general reserve** comprising assets which are either cash (i.e. cleared funds at the bank) or in a form that can be converted in to cash within the required period.

TBC is no different to many other organisations; it needs a general reserve:

- To cover a shortfall in income, for example, if one of the main corporate sponsors withdrew funding, the reserve could be called upon to provide the necessary cash-flow until a replacement funder was found.
- To meet an unexpected expenditure, for example, if a major (but uninsured) repair was required to the building, this could be met from the reserve.

Closure

In addition to the ‘bumps in the road’ scenario, the existence of adequate reserves will ensure that, if the worst happens and the organisation needs to be closed down, there will be sufficient funds to meet all of its obligations and liabilities as part of a managed exit.

In TBC’s case, it is envisaged that, in a closure scenario, it would require a higher level of reserves to fund a managed exit as compared to say a private company of a similar size. That is because it could not simply ‘close its doors’ as, in order to meet its moral obligations to its service users, it would need to continue operating for a period to complete the services already commenced or to arrange suitable alternative provision.

In the event of closure, the general reserve would be required to fund all residual operations, redundancy and other closure costs, at least until such time as the value in the building is realised.

Why does TBC need a Reserves Policy (the Policy)?

TBC needs the Policy for four principal reasons:

1. To assist the Trustees to assess what the **sufficient** level of reserves should be at any given time. Indeed, this will change over time as the charity grows, the services it provides change and the risk profile of its income and expenditure changes.

It should be noted that, whilst TBC like all charities should be maintaining sufficient reserves, it also has a duty to not be over-cautious and maintain excessive levels of reserves. Subject to maintaining sufficient reserves (in accordance with the Policy) TBC should apply all of its income and assets in the provision of the services detailed in its charitable objectives.

2. To clarify the arrangements for monitoring and reviewing the level of reserves.
3. For compliance purposes, as standard accounting practice requires charities to report on its reserves and reserves policy in the annual statutory accounts.
4. To assist with fundraising, as many charitable trusts and similar organisations now require details of, or even sight of, the Policy as part of their assessment of any funding application.

How will the Policy apply in practice?

The Trustees will agree a target level for the general reserve, which will be kept under review and reassessed regularly. The actual level of reserves at any time will then be measured against this target, and appropriate action taken to make up any shortfall / utilise any surplus.

How will the target level of general reserves be assessed?

In assessing the appropriate level for the target general reserve, the Trustees will consider each of the following:

1. **Income risk**: the robustness of the current income streams, TBC's sensitivity to the partial or complete withdrawal of any particular funding source and the likelihood and timing of any potential replacement / new funding.
2. **Expenditure risk**: the level of confidence in the expenditure budgeted for the current period, the likelihood and likely magnitude of unbudgeted costs arising and the ability of TBC to flex spending in the short to medium term in response to unexpected events.

3. **General operating environment:** the potential external risks / developments / changes that could impact TBC's operating position, such as changes in government legislation, changes in priorities at the local authority, activity by 'competitor' charities or the loss of key staff members.
4. **Cost of closure:** should an event or events occur which cause the Trustees to decide to close TBC, how closure of the charity would be managed and funded.

Arrangements for monitoring and reviewing the general reserve, and the Policy itself

Given that TBC is a dynamic, growing organisation, it is likely that the target general reserve will change from time to time.

The target general reserve, and indeed the Policy itself, will be the subject of a regular review between the CEO and the Financial Trustee. Any proposed changes will be reported to, and discussed at, the following Finance & Governance Sub-Committee meeting.

A formal assessment of the target general reserve and of actual reserves will be undertaken between the CEO and the Financial Trustee on an annual basis, as part of the preparation of the Report of Trustees that ultimately appears in the Statutory Audited Accounts, which are submitted to Companies House and to The Charities Commission.

This formal assessment will be presented to, and approved by, the Finance & Governance Sub-Committee each year. The latest annual assessment will be appended to the Policy each year.

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