

RESERVES POLICY

Main points:

- What are reserves?
- What level of reserves do we need?
- The Reserves policy

What are reserves?

The trustees are keenly aware of the need to ensure they have sufficient cash to meet their outgoings.

Although we work with the minimum of reserves we determine to have sufficient funds to meet our needs.

Whilst there is no legal definition of what a reserve is, the following Charity Commission description is our guide:

"A reserve is an unspent pool of money for which no particular purpose has been identified for the time being".

This is in addition to monies prudently set aside for known essential future expenditure e.g. for the repair and maintenance of the buildings and upkeep and maintenance of equipment.

What level of reserves do we need?

It is always important to recognize the need for and ensure that sufficient reserves are available to enable the organization to achieve its aims and objectives as determined from time to time by the trustees, but on the other hand, holding too much money in reserve may promote criticism and may well cause searching questions to be asked as to whether the charity is hoarding its cash.

Holding reserves without justification may also amount to a breach of trust. By formulating a reserves policy the trustees can be confident that they will be meeting the requirements of charity law.

Trustees are under a general legal duty to apply or spend funds within a reasonable time of receiving them.

Whilst there is probably no need to hold general reserves of more than, say, twelve months of routine expenditure the organisation could be holding reserves that are too high or too low for its needs.

If reserves are too high it is retaining income funds without justification. Those funds ought to be expended for charitable purposes. It is clearly understood that while the funds remain in the trustees' hands the charity's current users or beneficiaries - actual or potential - are not being as well served as they could be.

Reserves policy

To justify the holding of reserves, trustees should have a reserves policy based on a realistic assessment of their needs. Many charities believe this process is an essential part of good financial management. Money does little good sitting in a bank account. All reserves should be earning interest wherever possible. Hence all monies deposited with our bankers are in interest bearing accounts.

This policy should cover as a minimum:

- the reasons why the charity needs reserves
- what level (or range) of reserves the trustees believe the charity needs
- what steps the charity is going to take to establish or maintain reserves of the agreed level (or range)
- arrangements for monitoring and reviewing the policy.

The amount of time spent on preparing such a policy should be in proportion to the scale and complexity of the charity's affairs.

However, where reserves are held a clear policy is appropriate. It should be communicated to members and reviewed regularly.

In deciding upon its reserves policy the Organisation should be guided by:

- likely income in future years, taking into account the reliability of each source of income and the prospects for opening up new sources
- likely expenditure in future years on the basis of planned activity
- any future needs or opportunities not likely to be met out of income,

these factors should take into account the need to cover:

- usual running costs
- surplus funds to cover unforeseen expenditure
- property repairs and maintenance
- planned developments

Trustees would have difficulty explaining why they hold reserves if they have not considered the above points.

This charity could find its reserves subject to scrutiny and comment in the public arena but once it has taken the trouble to explain its reasons, the great majority

of its donors, supporters and beneficiaries will be quite prepared to accept that it should hold appropriate reserves.

Reserves Policy 2013/14

It is considered that during this year of consolidation for the charity sufficient reserves and balances should be kept as follows:

| | |
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| Administration of the charity, audit | £ 1,500 |
| Building rental, maintenance and repairs | £ 1,500 |
| Rental for new property | £10,000 |
| The running costs of the existing services, i.e. heat, light, computer service connections, volunteer expenses | £ 6,500 |
| Existing funds for restricted use – Devon Community Fund and Okehampton Charities | <u>£ 4,000</u> |
| Total | <u>£ 23,500</u> |

This total will comprise the majority of the charity's assets for the year.

The purpose for securing these funds is to give the charity the opportunity, free from time consuming fund raising, to concentrate on:

- the winning of new volunteers to serve the charity
- the completion of the computerisation of the organisation
- the establishment of a new centre

This policy is always open to review and will be reviewed before the AGM in 2014.

Barrie Duke
Chief Officer