

TOPICS

RESERVES POLICY

How to set and apply

- WHAT ARE RESERVES?
- HOW DOES CC DEFINE RESERVES
- WHY HAVE A POLICY?
- HOW TO SET THE POLICY
- HOW TO APPLY THE POLICY
- HOW TO REPORT THE POLICY
- MAJOR PROPERTY REPAIR VARIATION
- RESOURCES AVAILABLE

WHAT ARE RESERVES?

WHAT ARE RESERVES

FUNDS SET ASIDE TODAY TO COVER FUTURE
COMMITMENTS
EMERGENCIES
PLANNED MAINTENANCE
LOSS OF INCOME
RESPONSIBLE CLOSURE

WHAT WE NEED TO HAVE AVAILABLE

CC DEFINITION OF RESERVES

CC DEFINITION

“Reserves are that part of a charity’s
unrestricted funds that is freely available to
spend on any of the charity’s purposes”

CC19 3.1

WHAT WE HAVE GOT

TOTAL UNRESTRICTED FUND less:

- FIXED ASSETS for charity use (Meeting houses)
- Programme Related Investment (Charitable investment eg Quaker Housing Trust)
- Designated funds (earmarked essential future spending that cannot be met from future income). Possibly Property funds but see later.

CC DEFINITION

What is the unrestricted reserve of this AM?

FUNDS – Endowment	500
- Unrestricted	<u>4000</u>
	<u>4500</u>
ASSETS – Meeting Houses	3000
- Investments endowment	500
- QHT investment	100
- Other investments/cash	<u>900</u>
	<u>4500</u>

CC DEFINITION

UNRESTRICTED FUNDS	4000
Less -FIXED ASSETS (charity)	3000
-Programme Investment	<u>100</u>
	<u>3100</u>
UNRESTRICTED RESERVE	<u>900</u>

WHY HAVE A POLICY?

WHY HAVE A POLICY?

- Charity Commission requires it.
- Qf&p 14.07 'All quaker bodies with reserves should have a written reserves policy'.
- It guides & unites Trustees ,AM, LM on adequacy of funds. It's a total AM Policy.
- It helps raising funds from members
- It helps with local, national, and worldwide funding
- It can fund responsible closure costs

HOW TO SET THE POLICY

MINIMUM LEGAL REQUIREMENT:

'For registered charities "The charity must explain any policy it has for holding reserves and state the amounts of those reserves and why they are held. "'

AM governing documents normally allow Trustees 'To set aside income as a reserve '. Otherwise charities are expected to spend income within a reasonable time.

HOW TO SET THE POLICY

Qf&p 14.07

Reserves may be needed in order to meet future obligations to maintain buildings and to complete projects. However, [meetings should not hold substantial reserves if no need for them is foreseen and the money could be better put to use in the world to further Quaker concerns, including assisting meetings with fewer resources to maintain their Quaker life and witness.](#)

HOW TO SET THE POLICY

- TENSION between fear of inadequate funds in the future, and holding today excess resources that could be well used elsewhere.
- TENSION between living off the wealth of the past, and paying our way today.
- AM needs to discern how to set a balance.
- No model policy for every AM.
- A technical and a spiritual challenge.

HOW TO SET THE POLICY

- THINK THROUGH WHY RESERVES MIGHT BE REQUIRED. WHERE WILL COSTS OCCUR IN FUTURE THAT CANNOT REASONABLY BE COVERED FROM FUTURE INCOME?
- DECIDE HOW TO DEAL WITH SURPLUS/DEFICIT
- WRITE THIS DOWN AS YOUR POLICY

HOW TO SET THE POLICY

A possible list of reservable costs would be:

- Property: known major defects & agreed major projects.
- Property: major repair variation
- Future income uncertainty
- Cash flow fluctuation
- Other major agreed projects

HOW TO SET THE POLICY

DECIDE OVER WHAT TIME FRAME SURPLUSES SHOULD BE DISPENSED, AND DEFICITS MADE GOOD.

HOW TO SET THE POLICY

Whilst the reserves policy covers unrestricted funds, best practice now is for Trustees to also consider restricted funds to make sure they are likewise expended in a timely fashion after receipt.

HOW TO APPLY THE POLICY

Annually quantify each cost element:	£K
Eg Known Property Defects	20
Future Major repairs-7.5% ins value	225
Income uncertainty – 3 months	50
Cash Flow dips – 3 months	<u>40</u>
Total	335

HOW TO APPLY THE POLICY

COMPARE TO Unrestricted Funds:	£K
Unrestricted Funds	900
Reservable costs	335
Surplus	565
Reduce over 10 years	57
Target deficit	57
(or increase programme investment by 565, Or a mix of the two)	

HOW TO REPORT THE POLICY

- MUST BE INCLUDED IN TAR
- State the policy, words and £
- State the unrestricted reserve £ and how derived from total unrestricted funds.
- Explain major designated funds and timing
- State the surplus/deficit £ and what the plan to deal with it is.

HOW TO REPORT THE POLICY

RESERVES: The policy of XAM is to hold reserves sufficient to cover 3 months of income and expenditure(£90K), plus known property defects(£ 20K), plus a reserve of 7.5% Insured value of property £225K to cover future fluctuating property costs.

This is a total need of £335K.

Unrestricted reserve available after deducting Meeting Houses £3000K and Social Investment £100K is £900K. There is a surplus of £ 565K.

The policy of XAM is to reduce the surplus over ten years, so a deficit of £57K will be budgeted in 2017.

PROCESS TO APPLY THE POLICY

1. AM Treasurer & Trustees agree a written reserve policy .
2. This is adopted following discernment by AM
3. Annually based on the policy the AM Treasurer/Trustees recommend a target surplus/deficit level based on the policy and how this might be achieved. This is then discerned by AM when agreeing the annual budget.
4. AM Treasurer/Trustees check as year proceeds whether they are on track to hit the target surplus/deficit.
If you run into difficulties please contact your link friend on QSC for advice.

CLOSING REMARKS

Do you see this as a way to informing and empowering your Trustees and AM?

Do you see this as as a tool to the right use of our resources?

RESOURCES AVAILABLE

- CC 19 Charity Reserves: Building Resilience
<https://www.gov.uk/government/publications/charities-and-reserves-cc19>
- How to set an area meeting reserves policy
<https://quaker-prod.s3-eu-west-1.amazonaws.com/store/3d58d50b8b8b2724ea0ba8023c003da0b3a4317648e54cc3c2e81df6f3e1>
- Your Link Friend

Major Property Repair Variation

All buildings have minor ongoing repair/redecoration needs. These should be met from annual budgets funded from that years income. All buildings will also have major future expense beyond the routine costs above. This will include:

1. Structural repairs – normally identified in quinquennial surveys.
 2. Upgrades for rising standards on access, safety, or greening.
 3. Changes to cope with the changing life of the meeting (expansion/downsizing, community outreach)
- Past advice has been 1% of the insured value of buildings be set aside for this annually. 2% may be more prudent for historic buildings. A history of major building cost as % of insured value would assist.

Major Property Repair Variation

1. Use past historic average or 1 to 2 % of insured value should be assumed.
2. Principle is that future average cost should be covered by income in future periods.
3. Objective is to be able to fund future variations in expenditure so abnormally high once off costs can be covered.
4. In any one year expenditure is unlikely to be more than five times the average, and very unlikely to be ten times. The more meeting houses in the AM the less the fluctuation will be.
5. A variation reserve level of 5 years average % of insured value would seem prudent, and one of 10 years very prudent.

HOW TO TEST THE POLICY

The policy should ideally be tested by broad modelling of the likely effect on the next five years annual surplus, donation levels, and reserves. That's because:

- Modelling the future is a good way to test whether action needs to be taken in the short term to fix underlying problems.
- A high level of reserves can allow underlying problems to remain unaddressed.

TESTING THE POLICY

• FOR THOSE WITH SPREADSHEET SKILLS

Build a simple model projecting income, expense, including major property, surplus/deficit, unrestricted reserve, donation levels to follow your policy.

Look at five to ten year projections with inflation, investment return, membership changes.

Does the policy 'work' for you? If not change it.