# How to set an area meeting reserves policy

## Why have a policy?

'*As Christians all we possess are the gifts of God. Now in distributing it to others we act as his steward and it becomes our station to act agreeable to that divine wisdom which he graciously gives to his servants*' John Woolman 1763, Qf&p 20.55

We (Trustees, AM) need to discern how the financial resources of our Area Meeting are to be divided between a reserve for reasonable future need, and spending on our current area and national needs. A good reserve policy helps us do this. Setting it is both a spiritual and a technical challenge. This document highlights in *ITALICS* the spiritual challenges.

## What are reserves?

Reserves are unrestricted funds freely available to spend.

They are the total unrestricted funds less any functional property (meeting houses etc) and less any programme related investments (Investments held in pursuit of charitable objects) and less any designated funds (earmarked for specific projects).

In simple cases it's the cash and investments held in unrestricted funds.

## What is the 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. If the trustees have decided that holding reserves is unnecessary, the report must disclose this fact and provide the reasons behind this decision." (CC15c 7.1.3 & FRS 102 1.22 ).

"The general principle of trust law is that funds received as income should be spent within a reasonable period of receipt." (CC19 5.2)**.**

The AM model governing document includes under trustee powers "15. iv To set aside income as a reserve." This means that such AMs are empowered to accumulate income and are not compelled to spend it within a specific timeframe.

## What does *Quaker faith & practice* say?

14.07 *All of us have a part to play in the processes of discernment leading to decisions on spending money on the work to be undertaken. In making decisions about spending, meetings should seek to find the right balance between current and future needs.* 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. All Quaker bodies with reserves should have a written reserves policy.

14.14 The area meeting is responsible for all the property and funds of its constituent meetings and other bodies subordinate to the area meeting**.** The area meeting trustees determine with each local meeting how the duties delegated to that local meeting are to be financed. The area meeting treasurer will agree with the local meeting how the funds are to be received, maintained and reported. Local meetings, with agreed delegated responsibility from their area meeting for a specific concern, may raise and retain funds for this concern. Such funds are part of the resources of the area meeting and are to be included in its annual accounts.

This effectively requires an AM wide policy, *with a balance between current and future expense, and between spending within the AM and outside it. And these balances should be based on AM wide discernment.*

## Setting the policy

*The following is based on the principle that the meeting should over the long term pay its own way, now and in the future, and not rely on past accumulated wealth but be able to cover annual fluctuations in income/expense, and known commitments.*

For a small AM with uncomplicated activities known commitments that should be reserved would include:

1. Known property defects: major defects not yet repaired.

2. Major projects (property or other) already agreed by AM not yet completed

Fluctuating income/expense areas where a reserve might be appropriate:

1. Property expenditure fluctuation. Whilst future major repairs/projects should be covered by future income the costs may vary considerably from year to year. It is prudent to have a property reserve to cover those years of above normal expense. For amounts see below.

2. Income uncertainty: a review of whether past major income sources will continue, and if not how long it would take to compensate by expenditure reduction for any shortfall.

3. Cash flow fluctuations; ideally based on cash flow projections any dips in income vs expense during the year

4. Investment Realisation: If a major portion of the AM investments are in unquoted investments, or investment property then a reserve to reflect a quick sale might be appropriate.

*The Policy should also state over what period reserves in excess of target should be spent (say five or ten years), and deficiencies replenished (say five years*).

*All AMs will differ in their circumstances and in their discernment. There is no uniform 'right' 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.

## Applying the policy

At the start of each year the AM Treasurer and the Trustees should set target or a target range for each element of the policy, producing a total unrestricted reserve target. This should then be assessed against the total reserve level.

A decision should then be made as to whether any additional funds should be contributed to programme related investment (eg Friends Housing Trust).

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

1. Modelling the future is a good way to test whether action needs to be taken in the short term to fix underlying problems
2. A high level of reserves can allow underlying problems to remain unaddressed
3. Having a clear reserves policy, and addressing issues can release more funds for support of Quaker Activities outside the Area Meeting

Steps should then be recommended by the trustees to Area Meeting in session in accordance with the policy to bring reserves back to target within the policy time range. This will be done by targeting an appropriate deficit or surplus in the following years budget for unrestricted funds.

## Summary of action to be taken

*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. This may entail extra giving to /investment in Quaker Activities outside the AM Area.*
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.

APPENDICES:
1. EXAMPLE A – Well funded AM
2. EXAMPLE  B – Underfunded AM
3. MAJOR BUILDING REPAIR RESERVE - AN APPROACH

LINKS:
Charity commission:  CC 19 Charity Reserves – Building Resilience
https://www.gov.uk/government/publications/charities-and-reserves-cc19
Trustee Report requirements:
CC 15c Charity reporting and accounting: the essentials (March 2015)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/468103/CC15c.pdf
SORP FRS 102 1.22
http://www.charitysorp.org/media/619101/frs102_complete.pdf

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## APPENDIX 1

## EXAMPLE A: Well funded AM

'Well funded AM' has the following reserve policy:
Unrestricted fund reserves (excluding functional property, and programme related investment) should cover:

1. Known future spending commitments
2. An estimate of next five year large property repair costs
3. A provision for reduction in voluntary income
4. A three month expenditure reserve to cover cash flow fluctuation or sudden cost increases.

Any surplus above reserve should be spent over 10 years; any deficit reduced over 5 years.

'Well funded AM' next year's budget shows:

| | |
|---|---:|
| Voluntary Income | 130,000 |
| Property income | 20,000 |
| Investment income | 20,000 |
| **Total Income** | **170,000** |
| Charitable activities | 90,000 |
| Property costs large repairs | 20,000 |
| Property costs routine | 90,000 |
| **Total costs** | **200,000** |
| **Deficit** | **30,000** |

The AM treasurer estimates the reserve target as:

| | |
|---|---|
| Already identified repairs needed | 20,000 |
| Next five years major property costs | 100,000 to 200,000 |
| Aging contributor base | 30,000 |
| Emergency expenditure reserve | 50,000 |
| Total | 200,000 to 300,000 |

"Well funded" has unrestricted reserves in cash and investments of £1,000,000

This is £700,000 to £ 800,000 above the reserve target.

A ten year reduction would mean the meeting running a deficit of £70,000 to £80,000 annually.

The Trustees recommend:

1. *An interest free loan to Friends Housing Trust of £ 200,000 over ten years.*

2. *An increase in donations to BYM and other Quaker funds of £20,000*

That would mean operating at an annual deficit of £50,000 with an unrestricted fund (excluding functional property and programme related investment) surplus above reserves of £500,000 to £ 600,000.

Note that next year the exercise is repeated. Any change of circumstances, misestimates are then taken into account.

## APPENDIX 2

## EXAMPLE B: Underfunded AM

‘Underfunded AM’ has the following reserve policy:
Unrestricted fund reserves (excluding functional property, and programme related investment) should cover:

1. Known future spending commitments
2. An estimate of next five year large property repair costs
3. A provision for reduction in voluntary income
4. A three month expenditure reserve to cover cash flow fluctuation or sudden cost increases.

Any surplus above reserve should be spent over 10 years; any deficit reduced over 5 years.

‘Underfunded AM’ next year’s budget shows:

| | |
|---|---|
| Voluntary Income | 130,000 |
| Property income | 20,000 |
| Investment income | 20,000 |
| **Total Income** | **170,000** |
| Charitable activities | 40,000 |
| Property costs large repairs | 20,000 |
| Property costs routine | 90,000 |
| **Total costs** | **150,000** |
| **Surplus** | **20,000** |

The AM treasurer estimates the reserve target as:

| | | |
|---|---|---|
| Already identified repairs needed | 20,000 | |
| Next five years major property costs | | 200,000 |
| Aging contributor base | 30,000 | |
| Emergency expenditure reserve | 40,000 | |
| Total | 290,000 | |

“Well funded” has unrestricted reserves in cash and investments of £100,000

This is  £ 190,000 below the reserve target.

A five year deficit reduction would mean the meeting running a surplus of £38,000 annually.

The Trustees recommend:

1. Identifying routine property cost savings of £5,000

2. *Maintaining current level of charitable activities*.

3. *An appeal to members to increase their contributions by 10% or £13,000*

If all this is successful that would mean operating with a surplus of £38,000 and reserves would increase to £138,000.

Note that next year the exercise is repeated. If all else is unchanged and the new level of income/expense maintained there would be another potential £38,000 surplus. And if the reserve target remains £290,000 the gap is reduced to £152,000 requiring only a surplus of £30,400. *The trustees/AM then must decide what to do with the potential £7,600 extra funds. Further build unrestricted reserve, or increase charitable activity?*

## APPENDIX 3: PROPERTY REPAIR FLUCTUATION – AN APPROACH.

All buildings have minor on going repair/redecoration needs. These should be met from annual budgets funded from that year's income. All buildings will have major future expense beyond these routine costs. 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. This may need to increase to 2% for older historic buildings. A history of major building cost as % of insured value would assist.

How high should this fluctuation reserve be? The principle is that future average cost should be covered by income in future periods. The objective is to be able to fund future fluctuations in expenditure so abnormally high once off costs can be covered.

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.

A fluctuation reserve level of 5 years average % of insured value would seem prudent, and one of 10 years very prudent.