



POLICY – FINANCIAL RESERVES

ST MADOC OF FERNS COMMUNITY GROUP

REGISTERED CHARITY 1204104

1. Introduction

This reserves policy explains why we are holding a particular number of reserves (an amount of available cash, as defined below). Having, and regularly reviewing, a reserves policy is a feature of good financial management and a resilient charitable organisation.

The guidelines have been (minimally) adapted from a template provided by [Charity Excellence](#).

2. Scope

An operating reserve is an amount of money that will be set aside to meet future costs or financial obligations. This could be due to:

- Unforeseen emergency or other unexpected need for funds.
- Unforeseen day-to-day operational costs
- Income falls below expectations
- Planned commitments cannot be met by future income alone (major asset purchase or 'matched funding').
- Funding short-term costs to release future funding.

Reserves are taken from freely available cash (unrestricted funds) and not tied to a particular project or purpose.

3. Calculation of Reserves

Our target reserve may be expressed as a target figure or range. It will be informed by:

- Cost forecasts for the current and future years, based on planned activities.
- Cost & income and forecasts for the current and future years based reasonable expectations of income.
- Analysis of any future needs, opportunities, commitments or risks.
- Probability of a shortfall arising and the potential consequences of being unable to make up the shortfall.

For example, we could use the following a scenario:

- The charity has no long-term viability due to lack of resource or capital funding.
- There is a notice period in the lease for the return of the property to the landlord, during which the charity is still liable for operating costs (insurance and electricity).

The reserves could be calculated from a reasonable proportion of the anticipated costs for the notice period.

If we are in receipt of a capital grant with an asset liability period then the target reserve would need to consider this.

4. Investment of Reserves

When the calculated reserve is large enough to generate a financial return to the charity it will be invested with consideration to:

- Timely access to funds (liquidity of the investment)
- An acceptable level of investment risk.

5. Review and Reporting

The reserves policy will be considered during the year as part of our financial management process:

- Actual reserves versus the target set in the policy must be reviewed regularly (as set out in the Financial Controls Policy).
- The target and actual reserves must be documented in the Trustees Report and approved at the Annual General Meeting of the charity (alternatively, holding no reserves would also need approved).