

Powys Challenge Trust

Meeting of 27 January 2002

Reserves Policy

Introduction

We do not, at this time, have an official reserves policy. In the run up to the year-end and the agreement to appoint auditors, it would be advisable for the Trust to have adopted such a policy.

Local requirements

Charities accounting and audit requirements are determined by the Charities Act 1993 and by the Charities (Accounts and Reports) Regulations 1995. The Charity Commission then issues SORPS (Statement of Recommended Practice) and guidelines which all charities are asked to adhere to. The larger the charity, the less acceptable it is to fail to implement the recommendations. Having now crossed the £250,000 a year turnover threshold, it will be increasingly important that we comply with the regulations. There is a specific document, CC19, which deals with reserves. The remainder of this report follows the guidance given in CC19.

Level of reserves

We are required to be able to demonstrate, by reference to our current financial position and future prospects, why holding a particular level of reserves is right for our charity at this time.

We currently have a turnover of some £250,000 a year rising to some £290,000 next year. Our expenditure is therefore of the order of £20,000 to £25,000 per month. At any one time we can have debtors in the order of £60,000. We have a somewhat uneven flow of funds during the year and much of our funding is on a one-year only basis. Our best funding is still no more than three years and each of the last two years have commenced with a budget deficit of some £50,000.

All of the above points to the need to have reserves of no less than three months turnover (£60,000 to £75,000) of the whole of our budget and preferably as much as 6 months turnover on the more vulnerable parts of the budget. We must also take account of the requirement to provide a 25% deposit on any building we may wish to purchase.

The need for reserves can be kept to no more than three months turnover where it applies to a contract such as the Restorative Justice Service. This amounts to some £75,000 of our turnover and is a self-contained section of our activities. It is 100% funded through the County Council. It still requires some reserves, as we have to bill our expenditure on a monthly basis. However, with a turnover of just over £6,000 a month, reserves for the Restorative Justice project should not be more than three months expenditure. (£20,000)

The above type of adjustment indicates a range of reserves from £70,000 to £110,000 at present levels of expenditure. This would represent from three months overall turnover to three months for Restorative Justice and six months for other services. These figures are in addition to the reserves that need to be set aside for the purchase of the property. (Currently, £25,000 deposit). The following is a suggested form of words that could be adopted to cover the above requirements.

RESERVES POLICY

"Powys Challenge Trust resolves to adopt a reserves policy as follows:

Reserves to be maintained at a level that ensures that core activity could continue during a period of unforeseen difficulty, typically a six-month period.

A proportion of these reserves, typically 50%, is maintained in a readily realisable form.

An additional reserve of £25,000 to £30,000 be set aside against the future need to pay a deposit on the purchase of the property. (To be deleted from this policy after such a property has been acquired).

The calculation of the required level of reserves is to be an integral part of the planning, budgeting and forecasting cycle. It must take into account:

The risk associated with each stream of income and expenditure being different from that budgeted.

The planned activity level and the organisation's commitments.

The Trust will require a written report and recommendation from the appropriate officer as part of the budget making process between January and April each year."

Recommended level of reserves as at 1 April 2002

1. £25,000 to be earmarked for deposit on a property.
2. £20,000 to be reserves for the Restorative Justice contract (three months turnover).
3. £15,000 to be reserved for other contracts (which total approximately £75,000).
4. £70,000 to be reserved for all other activity, representing six months turnover.

This £130,000 total is in line with the balances on our accounts as at 1 April 2001. There should therefore be no requirement to increase this level of balances until we are preparing the budget for 2003/04. The outturn for 2001/02 will determine whether any action is needed to add to balances in 2002/03 to bring them up to the recommended level.

Restricted, Unrestricted and Designated Funds

"**Unrestricted funds** are funds expendable at the discretion of the trustees in furtherance of the objects of the charity. If part of an unrestricted fund is earmarked for a particular project it may be **designated** as a separate fund, but the **designation** has an administrative purpose only, and does not legally restrict the trustees' discretion to apply the fund".

Para 58 CC19 Charities' Reserves.

The above indicates that we could designate the £25,000 for the purchase of the building. I recommend that this be done. The question of restricted fund then needs to be taken up with our auditors before the 2001/02 accounts are closed.

Roger Cumberland
Resources Manager
28 January 2002