



Badingham Community Council

Reserves Policy

1 Introduction

What are Reserves?

Reserves are that part of the Badingham Community Council's (BCC's) **unrestricted** funds that is freely available to spend on any of our purposes. The starting point for calculating the amount of reserves held is therefore the amount of unrestricted funds we hold. However, some of our unrestricted funds may not be readily available for spending. This is because spending those funds may adversely impact on our ability to deliver our aims. The items that the Charity Commission recommends should be excluded from reserves are:

- tangible fixed assets used to carry out the charity's activities, such as land and buildings (none)
- programme-related investments held solely to further the charity's purposes (none)
- designated funds set aside to meet essential future spending, such as funding a project that could not be met from future income (described in the Designated Fund section later)
- commitments that have not been provided for as a liability in the accounts (N/A).

It is good practice to keep money aside as a reserve to protect a charity against drops in income or allow it to take advantage of new opportunities. This is called the charity's general, or operating, reserve and it can be spent on any of its aims.

If setting aside money for a specific purpose, such as building works, a charity should make it clear that this is separate from the charity's general, or operating, reserve. Such funds are called 'designated funds', sometimes 'earmarked funds'.

Why is this Policy needed?

Charities generally rely on powers implicit in the law to hold reserves. Trustees can use these powers where they are satisfied that to do so is in the best interests of the charity: their reserves policy should reflect their reasoning. When making this decision, trustees of unincorporated charities such as the Badingham Community Council (BCC) need to weigh it against the general trust law principle that funds received as income should be spent within a reasonable period of receipt of the funds.

What is a Reserves Policy?

Within the legal framework, the Charity Commission requires us to maintain this policy, which sets out what reserves of money we will maintain under implicit legal powers, when, and why.

It explains to existing and potential funders, donors, beneficiaries and other stakeholders why we are holding reserves. It aspires to give confidence to our stakeholders that the charity's finances are being properly managed and to provide an indicator of future funding needs and our overall resilience.

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2 What factors did we consider in setting the policy?

Whether we hold any Restricted Funds

Restricted funds fall outside the definition of reserves, but the nature and amount of such funds may impact on our reserves policy. Where significant amounts are held as restricted funds the nature of the restriction should be considered, as such funds may reduce the need for reserves in particular areas of our work. The BCC holds restricted funds that may only be used for the purpose for which they were donated. These funds are: Youth Club; and Playing Field. The amounts held are stated in our accounts, which are regularly reviewed by our Executive Committee (EC) and published annually.

The EC also considers whether there are realistic opportunities to spend these funds. The holding of these reserves does not reduce the need for reserves in other areas of our work. It is more likely that the General Reserve would need to supplement the funds, should an opportunity to spend the money present itself.

What size our general reserve should be

Higher than necessary reserves should not be held, but that is because it might limit the amount spent on charitable activities and the potential benefits we can provide. But we do not hold our reserves in a way that would have that effect – our reserves are readily available. Also, the most important issue in reserves is ensuring they are big enough, not reducing them.

Too low reserves, increases the risk to our ability to carry on our activities in future in the event of financial difficulties, and increases the risks of unplanned and unmanaged closure and insolvency. Not having adequate operating reserves could also distract us from long range planning or prevent us from taking advantage of unexpected opportunities.

The risks that affect us

For now, there is insufficient forward planning, and projects and events tend to materialise unexpectedly. Our income is subject to a surprising amount of uncertainty. It can be volatile and is insecure and vulnerable to factors outside of our control:

- our income is from a limited population and multiple but related sources
- we are vulnerable should there be an unforeseen decline in in take-up of our Membership, the Tote and attendance at events. We could be subject to a situation where we lose the faith of our members for some reason and there could be little warning
- we rely on a small number of donors for a part of our funding, although no major donor has indicated a change in their planned giving
- our fundraising activities provide an irregular funding source and are heavily dependent on volunteer effort and other goodwill
- we are not particularly vulnerable to the general economic situation, but we believe this applies only while our membership fees, Tote, advertisement charges and Echo publication costs remain very low and we are staffed by volunteers.

3 What reserves will be held?

We will allocate money from unrestricted fund balances, which are not invested in fixed assets (the BCC has no fixed assets), to two funds, the **General** and **EC Designated** Funds.

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General Fund (Operating Reserve)

Our Operating Reserve will not be set as a ratio of our spend, as in many organisations, because that has historically been very variable. It will be set as the amount we need to: maintain consistent, low-intervention banking; protect ourselves against drops in income; allow us to take advantage of new opportunities; and act as an 'internal line of credit'.

EC Designated Fund

Our Designated Fund will cover the costs of three known risks, should they arise:

1. Continuity risk - to bridge any possible delays in receiving promised grants or being required to provide matched funding (such as was requested for the Field to Fork scheme in 2023).
2. Restructuring risk - to cover essential activities whilst sourcing new income in the event of a significant unexpected change to our circumstances.
3. Dissolution risk – to cover the costs of dissolution should the charity be unable to continue. There will need to be an orderly closure in the event of an unplanned shutdown and insolvency. The funds may only be used in the event of the Trustees' deciding the charity should cease to exist and will be used to pay the expenses and commitments of the BCC until closure of the organisation.

The minimum reserve required is the Restructuring Fund plus the Dissolution Fund. These are to be used to ensure we look at every alternative before dissolution of the charity.

For the time being we will also set aside funds to support/seed-fund any unheralded worthy project when it arises. By identifying a need and setting money aside in such a fund, we can build up the money needed over a period and help manage the financial risk of projects we plan as we develop our Operational Plan and Forecasts, which we currently do not have in place. In this way we can spread the burden over several years. When calculating the amount of reserves stated in our annual report, we may exclude the amount properly designated from the reserves total. But we are committed to explain the amount and nature of the designations in our reports along with the likely time of expenditure. Should our budgets be reduced due to the end of projects or other such occurrences, then the reduction of reserves should be planned over a minimum of five years.

4 What reporting is required?

The Charities SORP, FRS 102, requires a statement of a charity's reserves policy and the level of reserves held in its annual report. If a charity operates without a reserves policy, this fact must be stated in the report. The BCC will from 2023 onwards produce an Annual Report including the required information, which will be presented at its Annual General Meeting.

Badingham Community Council: Adopted October 2023.

This policy will be reviewed by the Trustees every year. First review September 2024. We may vary the terms of this policy from time to time.