

## Reserves

Reserves are, as the name suggests, amounts of money held by your group to buffer them against unexpected or expected but unpredictable events.

### **Events for which you may want to keep reserves.**

Replacement of assets.

Short term issues with funding sources.

Ongoing maintenance or emergency repairs to buildings or other assets.

Recruitment drives for key workers or redundancy payments.

Short-term cashflow issues like late arrival of subscriptions, membership fees or grants which have been won.

To pay for one-off projects or to employ someone to undertake a specific piece of work.

### Three types of reserves.

**Restricted** reserves come with an obligation to spend the money on the purpose for which it has been given. This will usually be from a donor in the form of a grant. These have to be reported separately in your accounts.

**General** reserves these are general 'rainy day' reserves. Your group needs to set a prudent reserve level. This should not be too low for obvious reasons but also not too high otherwise funders could expect you to use your own money not theirs if you apply to them for funding. Designated funds are generated from general funds but are set aside for something in particular like a major refurbishment or a new vehicle.

**Large** reserves If you have a large level of reserves, why not plan to spend them on a project which continues the good work your group is doing and meets the group's aims. This is putting the money to good use. Examples of this could be running a publicity drive to make others aware of your work, replacing old equipment or buying new items, employing a coach, running an event, developing a website or anything else you want to do!

## How Much To Keep In Reserve?

The first stage is for your committee to agree a reserves policy and the second is to decide levels at which reserves should be kept. This can be done at your next committee meeting or by having a special committee meeting on the topic. It is a good idea to keep a record may be kept of how these policies and reserve levels were drawn up for future reference.

### Items to be taken into consideration in agreeing the reserves policy

- For the three types of reserves outlined on the first page decide what expenses/costs will be included in the policy.
- What are your group's legal obligations if any, such as redundancy, maternity and sick pay for employees or contracts to supply services.
- Identify valuable assets of the group and estimate their expected life.
- What are previous years' patterns in expenditure.
- What are current levels of expenditure and income? Could this change?
- What would happen to the reserves if the group ceased to operate (this is often dealt with by stating on the policy that they will be passed on to another group with similar aims).

### Items to be taken into consideration in agreeing the levels of reserves

- Agree how much you need to set aside to cover your legal obligations.
- What are the costs to repair or replace valuable assets in your group and what are the timescales against this?
- What are the costs of the unexpected or expected but unpredictable events which may occur?
- Agree how long you wish to be able to operate if your income greatly reduced or stopped for a time.
- If you ceased to operate what reserves would you need to wind down. This does not need to be kept in addition to the items above.

If you are finding it difficult to work out a reserve level, a guideline of 25% of your annual expenditure can be used initially and reviewed after a year.

## How To Build Up Reserves To The Agreed Level

- Decide how you are going to build up these funds.
- Review progress regularly in committee meetings.
- Ensure that reserves are in suitable higher interest rate accounts/bonds.
- Be open with the issue to members and funders.