

Reserves Policy

1. Introduction

- 1.1. The Charities Act requires that Trustees prepare an annual report and consider whether the Charity needs reserves and what level of reserves are appropriate.
- 1.2. A statement about the reserves policy must be published in the accordance with the Statement of Recommended Practise for Charities better known as the Charity SORP.
- 1.3. A reserve is part of a charity's unrestricted funds that is freely available to spend on any of the charity's purposes. This definition excludes restricted income funds and endowment funds, although holding such funds may influence a charity's reserves policy. Reserves will also normally exclude tangible fixed assets held for the charity's use and amounts designated for essential future spending
- 1.4. It is important to remember that Charity law requires any income received by a charity is to be spent within a reasonable period of receipt. Trustees should be able to justify the holding of income as reserves.

2. Fund Types

2.1. Restricted Funds

- 2.1.1. The restricted funds are funds subject to specific trusts, which may be declared by the donor(s) or with their authority (eg in a public appeal) or created through legal process, but still within the wider objects of the charity. Restricted funds may be restricted income funds, which are spent at the discretion of the trustees in furtherance of some particular aspect(s) of the objects of the charity, or they may be endowment funds, where the assets are required to be invested, or retained for actual use, rather than spent.
- 2.1.2. The self-generated income (SGI) which the clubs, societies and projects (CSP) create is being regarded as the restricted funds of the Union and as such is excluded from the definition of being freely available to spend on any activity. The SGI is to be used exclusively for clubs, societies and project activities.

2.2. Unrestricted Funds

- 2.2.1. The surplus or remaining funds generated from the block grant, social enterprise activity, mini bus hire, events and advertising less all the associated expenditure constitute the unrestricted funds of the Union and as such are freely available to spend on any of the charity's purposes.

2.3. Designated Funds

- 2.3.1. Designated funds are part of the unrestricted funds which trustees have earmarked for a particular project or use, without restricting or committing the funds legally. The designation may be cancelled by the trustees if they later decide that the charity should not proceed or continue with the use or project for which the funds were designated.

3. Level of Reserves

3.1. There is no single level or even a range of reserves that is right for all charities. Any target set by trustees for the level of reserves to be held should reflect the particular circumstances of the individual charity.

3.2. When determining a level or range of reserves the following steps are outlined by the Charity Commission for consideration:

3.2.1. Step 1 - Understanding the nature of charitable funds held

3.2.1.1. Within the balance sheet of the Union fund balances can be classified into two categories being either restricted or unrestricted.

3.2.1.2. The restricted funds consist of Capital Grants and Student Activities (CSP SGI balances). As at 31 March 2016 the Capital Grant balance was £3,118,166. This fund represents historical funds provided by College to fund capital developments. This fund will reduce over the depreciated life of the capital asset as a small proportion is released each month as income to fund the depreciation charge.

3.2.1.3. The Student Activities balance as at 31 March 2016 was £1,283,653.

3.2.1.4. The unrestricted funds fall into two categories namely designated and general. The designated funds represent the funding of fixed assets and investments less the capital grant.

3.2.1.5. Restricted and designated funds are excluded from the free reserves calculation.

3.2.1.6. The general or free reserve as at 31 March 2016 was £1,351,479.

3.2.2. Step 2 - Identifying functional assets

3.2.2.1. The Charities SORP specifically allows funds held as tangible fixed assets for charity use to be excluded from reserves. This recognises that certain assets will be used operationally and their disposal may adversely impact on a charity's ability to deliver its aims.

3.2.2.2. As at the 31 March 2016 the net book value (NBV) of Fixed Assets was recorded as £4,953,986 with the majority relating to the three phases of capital development for South Kensington. The remaining balance relates to equipment and mini-buses. Clearly all the fixed assets of the Union are essential to the delivery of our charitable aims and could not be disposed of without adversely impacting our operations.

3.2.2.3. The NBV of the Fixed Assets less the Capital Grant is therefore set aside as designated funds in the balance sheet and is excluded from the free reserve calculation.

3.2.3. Step 3 - Understanding the financial impact of risk

3.2.3.1. It is important to consider the financial impact of certain risks, if they occur, on the activities of the Union especially the financial impact of catastrophic events taking place.

3.2.3.2. The draft strategic risk register has identified a number potentially significant strategic risks which would have a financial impact including commercial operations suffering a significant downturn, a serious health and safety incident occurring and significant failure of our IT systems.

3.2.4. Step 4 - Reviewing sources of income

3.2.4.1. We are now in the final year of a three year funding arrangement with College and have achieved agreement for a funding uplift for 2016/2017. At present the funding for 17/18 and beyond is uncertain although it is not expected that funding will reduce.

3.2.4.2. Income from Social Enterprise which currently is in the region of £3.2m has a degree of volatility and an in year contingency of up to 5% is created each year to mitigate any potential income shortfall and to encourage managers to create more aspirational operating plans. The current level of contingency is £75,000 (2.3%).

3.2.5. Step 5 - Impact of future plans and commitments

3.2.5.1. At present, the process of compiling the next strategy has only just begun and it is impossible at this stage to tell how innovative the strategy is likely to be or indeed what resources will underpin it.

3.2.5.2. In order to support the 10 year capital plan which is being drafted it would be prudent to set aside one year's worth of capital funding so that liquid funds remain readily available to underpin capital expenditure throughout the year.

3.2.5.3. There are a number of statutory changes in the pipeline in relation to financial reporting standards which will affect the amount of reserves needed to underpin pension liabilities and the year end provision for staff holiday pay. Once professional advice has been undertaken in relation to these matter, the financial model outlined below in appendix 1 can be updated.

3.2.6. Step 6 - Reserve Policy – Wording for Final Accounts

The final wording for the 15/16 accounts will be reviewed once professional advice has been undertaken as the new financial reporting standard, FRS 102 requires additional disclosure including the need to compare the available reserves with the reserves policy and explain what steps are being taken to bring the level of reserves held into line with the policy.

For reference the current word is:

The trustees of the Union have reviewed the organisation's needs to generate free reserves in accordance with Charity Commission's guidance.

In the Trustees' view the Union needs free reserves in order to

- *Ensure that funds are available to safe guard the Union for the benefit of our membership*
- *Ensure that the Union has sufficient cash during periods of volatile trade enabling the Union to meet its short term financial liabilities as they fall due*
- *Provide the financial resources to enable investment in premises, facilities and equipment to enhance the range of services the Union provides to its members*
- *Maintain sufficient funds to enable operational activities to be maintained, taking account of potential financial risks, uncertainties and contingencies that may arise from time to time*

In light the above, the Union will maintain a target level of free reserves within a range of between two to four months average unrestricted expenditure which equates to between £800k and £1.5m.

4. Conclusion

- 4.1. The Union is now much stronger financially having moved from a position of negative free reserves in July 2012 to a positive position of £1,351,479 as at 31 March 2016. It is expected that the value of reserves will reduce over the coming months due to the seasonal nature of Union activity.
- 4.2. The Reserve Policy and calculation of the desired free reserve balance needs to be reviewed at least on an annual basis by Trustees to ensure that the target reserve balance is sufficient for the needs of the Union.
- 4.3. The Board of Trustees at its recent Away Day focused on strategic risk management and further consideration may be given to the level of reserves once the strategic risk register has been completed. Also the level of reserves will fluctuate according to the perception of risk and the financial strength of the Union.

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Appendix 1

Projected movement in Reserves over the next 10 years

Year	Opening Balance	Asset Purchase	Depreciation	DCG Release	Surplus	General Reserves
2015/16	764,967	(272,632)	505,287	(221,821)	100,000	875,801
2016/17	875,801	(244,162)	527,622	(221,821)	(150,000)	787,440
2017/18	787,440	(114,645)	541,344	(221,821)	-	992,318
2018/19	992,318	(145,176)	556,855	(221,821)	50,000	1,232,177
2019/20	1,232,177	(417,515)	566,988	(221,821)	50,000	1,209,829
2020/21	1,209,829	(384,560)	575,989	(221,821)	50,000	1,229,437
2021/22	1,229,437	(251,243)	581,052	(221,821)	50,000	1,387,425
2022/23	1,387,425	(77,527)	579,706	(221,821)	50,000	1,717,783
2023/24	1,717,783	(118,326)	582,066	(221,821)	50,000	2,009,702
2024/25	2,009,702	(547,555)	595,394	(221,821)	50,000	1,885,721

Note / Assumptions:

1. The projected asset purchases are based on the 2015/16 10 year plan approved in June 2015 which is currently being updated and will be presented to F&R as part of the 2016/2017 operational budget
2. The upper level of reserves could be achieved in 2022/23
3. A deficit budget is agreed for 2016/2017 and a break even budget for 2017/2018