

## **Reserves Policy**

1. This paper provides an update to the reserves policy paper presented in October 2016.
2. Leadership team reflected on the need to generate reserves to underpin new investment initiatives not encapsulated within the 10 year capital plan and agreed the inclusion of an additional paragraph within the reserves policy.
3. The wording gives guidance on how capital initiatives will be assessed and clearly outlines the level of return on capital that is expected.
4. Appendix 1 below is a draft of the final words to be incorporated into the Annual Report of the Trustees and Financial Statements. The items which have been underlined will be updated with reference to the final accounts produced as at 31 July 2017.

## Appendix 1

Wording to be published in the Annual Report of the Trustees.

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 the Union has sufficient cash during periods of volatile trade, enabling the Union to meet its short term financial liabilities as they fall due. A provision of 15% (£314,000) of volatile income will ensure the Union has sufficient funds to accommodate trading uncertainties.
- Provide the financial resources to enable investment in premises, facilities and equipment to enhance and maintain the range of services provided to members. A long term capital plan has been established and a short term five year provision of £930,000 is needed to replace and enhance existing capital resources.
- Provide sufficient funds to allow the Union pursue new opportunities for service development.

The Union will generate reserves to underpin investment in and development of our Social Enterprise services offered to our members through the various outlets including the Retail shops, licensed trade and conferencing services. It is expected that such initiatives will generate a positive return on capital invested.

Investments will also be made in non-social enterprise initiatives where no financial return on investment is expected. Such projects will include the development of non-income generating resources which are used for student activities. E.g. Replacing the floors in the activities spaces on L1, development of the West Basement

Where appropriate specific applications will be made for additional capital grant funding from College to support capital investment.

The trustees consider the ideal level of free reserves as at 31 July 2016 to be £1.2m. This figure is intended to accommodate the baseline needs of the Union and any subsequent amount would be intended to enable potential new service initiatives.

The Union has £734,496 of free reserves as at 31 July 2016 and plans to reach the ideal level within the next six years depending on the level of capital resources needed over the intervening period and the extent to which new service initiatives are adopted. The trustees have reviewed a longer term financial model and consider it reasonable to expect the target level of reserves to be achieved within the stated time period given the following considerations – the Union's operational investment budget for 2016/17; the Union achieving a breakeven position for 2017/18; then makes modest surpluses for the next six years; and capital resources being spent in line with the current capital investment plan.

The Union holds restricted reserves of £3,040,862 for capital grants and £849,809 for student activities and halls funding. Both of these reserves are fully allocated and are not available for general use by the trustees.

Designated funds of £2,039,493 are part of the unrestricted funds which trustees have earmarked for particular projects or specific use. These funds have been allocated to fixed assets and are not available for general use. The value of £82,000 has been included with designated funds which represents the commitment to purchase 3 new mini buses. The Union's investments have also been included within designated funds as they are not readily available to the trustees.