



Reserves policy and guidance notes

September 2015

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CONTACT DETAILS

Stewardship

1 Lamb's Passage, London EC1Y 8AB

t 020 8502 5600

e: enquiries@stewardship.org.uk

w: stewardship.org.uk

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Guidance notes

Please read these guidance notes before using the policy document.

General comments

Charity law requires that income received by a charity is spent within a reasonable time period of receipt, and so where funds are not spent and held as reserves, the trustees have a responsibility to explain why funds are being retained and to set out when they are likely to be used.

Whilst storing up excess in the good years for use in the barren years is a Biblical principle exemplified by Joseph, excess funds should not simply be carried forward year after year, especially when they can be effectively applied to further the Kingdom of God. In addition, the Charities SORP requires charities that report using accruals accounting, to include a reserves policy (or an explanation as to why one is not needed) in the annual trustees' report.

Specific notes

- 1.3 Reserves can only be made up of unrestricted funds. Restricted funds may be held at the end of the year and will be reported separately, but they do not form part of the church or charity's reserves.
- 2.1 Most churches and charities will seek to hold a level of general reserves to protect themselves in the event of any down turn or unexpected change in circumstances. More specific reserves held for future projects or other future financial commitments are less common.
- 2.2 The calculation of a reserves figure is not an exact science and will be subject to a degree of judgement. After taking into account the various components mentioned in section 2.2, it is perfectly acceptable to arrive at a calculation based on a period's normal expenditure levels (e.g. 3 months normal expenditure).
- 2.3 Although not essential, it is normally considered to be best practice to designate funds held for a future purpose or commitment. Designation is not a legal restriction and it can easily be removed by the trustees in the future if it is no longer required.
- 2.4 Reserves will need to be re-assessed in accordance with changing circumstances or otherwise on an annual basis.
- 3.1 Reserves can be invested, but given the nature of general reserves to protect against unforeseen operating difficulties, investments will generally be short-term in nature and must only be undertaken in accordance with the church or charities own investment policy.
- 3.2 There are circumstances in which a church or charity may consider that it does not require to hold any reserves, although this is likely to be quite rare.
- 4.1 & 4.2 The reserves policy (or the lack of one) must be explained in the trustees' annual report.



Highworth Community Church (HCC)

Reserves Policy

1. General policy

- 1.1 The trustees of HCC recognise the importance of a reserves policy to help demonstrate good stewardship and financial management and to manage its reputation.
- 1.2 Our policy is to retain sufficient reserves:
 - To ensure that the church has sufficient funds to meet its financial commitments;
 - To demonstrate that the church is sustainable into the future;
 - To ensure that the church is able to manage future unforeseen financial difficulties;
 - To ensure that excessive funds are not held without any identifiable reason or for any identifiable purpose.
- 1.3 This reserves policy relates only to the church's unrestricted funds. Restricted funds may be held in addition to be used for the restricted purpose for which they were given.
- 1.4 The overall responsibility for this policy and its implementation rests with the trustees of HCC.
- 1.5 In constructing this policy, the trustees have paid due consideration to the Charity Commission guidance on charities and reserves.

2. Calculating reserves

- 2.1 Financial reserves are considered in two parts:
 - General reserves that are deemed necessary to meet future operational requirements and to protect the church against future financial uncertainties including loss of income and unexpected increases in operating costs;
 - Reserves set aside to meet future financial commitments for a specific significant project or venture or planned future commitment.
- 2.2 General reserves are calculated after assessing the financial risks faced by the church and determining:
 - The size of any contingency fund required to meet unforeseen operational costs;
 - Any uncertainty that might exist over the continuation of future income flows including donations and other grants;
 - An amount that might be required to cover expected deficits in the cash budget;
 - An amount that might be needed to meet an unforeseen emergency.

2.3 Specific reserves are calculated with reference to a planned spending commitment or to fund a specific project or other venture. Generally specific reserves will be treated as designated funds.

2.4 Reserves will be reassessed regularly and specifically in the following circumstances:

- A significant change in the core operations of the church;
- Information coming to light that casts doubt on the church's future income flows;
- A significant change to the wider environment in which the church operates, including the overriding economic climate;
- Annually, in the event that no other re-assessment has taken place.

3. Using reserves

3.1 The Trustees have determined that HCC does not require an investment policy at this time.

3.2 The minimum safe operational amount required to pay redundancies and other legal commitments in the event of a loss of all income, will be held in the HCC deposit account. This amount will be re-calculated when the reserves are reassessed.

3.3 In the event that the church has excess reserves, the trustees, in consultation with the leadership, will consider how these funds might be effectively used in the future.

4. Reporting the reserves policy

4.1 The trustees will include an explanation of the reserves policy in their annual report setting out:

- A brief statement of the general policy;
- The level of reserves held and a brief explanation of why they are held;
- Where material funds have been designated, the amount and the purpose of the designation;
- Where designated funds relate to future expenditure, the likely timing of that expenditure.

4.2 If the trustees conclude that no reserves are required, this will be explained in their annual report.

5. Adoption of this policy

5.1 The trustees of HCC formally accepted this policy at the trustees' meeting held on 7th March 2018. Review date: March 2020.

Signed..... Brenda Savill - Chair of Trustees,

Signed Matt Ford - HCC Leader