



## Financial Reserves Policy

### 1. Scope of this policy

Charity law requires any income received by a charity to be spent within a reasonable period of time from receipt. Trustees must be able to justify reserves held to stakeholders and explain how reserves are used to manage uncertainty. They will also explain when reserves are to be spent by and how it will fund future activity.

#### The need for a reserves policy

- To ensure trustees consider how they will secure and sustain the charity's viability and future.
- To give reassurance to the general public that the charity intends to use all of the money it receives.

There is no specific legal rule which states what proportion of a charity's funds may be held as a reserve.

### 2. Policy Statement

#### **Policy Headline**

Reserves are set at 12.5% of the total grant awards given or committed to in the current financial year to a maximum of £500,000.

Reserves are defined as unrestricted funds that are freely available to spend on any of the Trust's charitable purpose. It excludes restricted income funds, tangible fixed assets and any investment funds.

Reserves should be held to service an unexpected need for funds, covering unforeseen day-to-day operational costs, a shortfall in income or to fulfil its obligations.

The Trust's sole income is generated by its society lottery operated by External Lottery Manager, People's Postcode Lottery.

As a company limited by guarantee with no fixed assets, reserves are set according to our budgeted income and against our obligations for continuous funding for our supported charities. It is intended to mitigate uncertainty relating to our cash flow and to ensure that there are sufficient reserves to cover any shortfalls against income, in particular in relation to expected grant awards. The reserves policy is only acted on when cash flow permits, to allow us to meet the Trusts' objective of annual flexible funding.

The costs to winding up Postcode Community Trust involve the six-month termination notice period outlined in the Service Level Agreement. This represents approximately 1-2% of the total income of the trust, or between £2,000 and £4,000 per month with a recommended 6 months provision.

### **3. Reporting/Communication of reserves policy**

Reserves are held openly and presented in a transparent way.

#### Management Information

Reserve levels should be reported as part of the monthly management accounts and in full at least quarterly to Trustees each year. The Executive Manager is designated to raise any issues in relation to excessive reserves directly with the Trustees.

The policy will be review once a year when budgets and activity for the year is planned.

#### Annual report

In accordance with SORP, the Trust's reserves policy will be stated within our Annual Report. This will include:

- the level of reserves and an explanation of why they are held;
- where funds are designated, the amount and purpose of the designation, and;
- where designated funds are set aside for future expenditure, the likely date of this.

#### Website

Our agreed reserves policy will be made available on the Trust's website.

### **4. Expenditure of reserves**

Reserves will be carried forward to the first quarter of the following financial year, at which stage Trustees will decide on whether cash flow permits expenditure.

### **5. Excessive reserves**

Reserves which exceed £500,000 will be expended through an increase in the total funding amount available to applicants or for larger one off projects.

### **6. Investment of reserves**

Excess liquidity will be placed in a high interest account for a fixed term period.

### **7. Review of policy**

This policy will be reviewed annually at the budget setting meeting to ensure that it is fit for purpose.

#### ***Example statement for Annual Report***

*This Reserves Policy relates to our Unrestricted Funds only. This includes funds held in our Bank account.*

*Designated or restricted funds are presented separately in our Annual Accounts on pX. To support fluctuations in the Trust's income, reserves amounting up to 12.5% of the total grant awards given or committed in the current financial year up to a maximum of £500,000 are held. These will be carried forward to XXXX and will be expended against the Trust's charitable activities as instructed by the Trustees.*

*As at the end of the last financial year our Unrestricted Funds balance was £XXXX.*