

RESERVES POLICY (updated March 2010)

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68 What are reserves?

Most Churches are keenly aware of the need to ensure they have sufficient cash to meet their outgoings.

Many may well work with the minimum of reserves but equally, some have considerable funds at their disposal. Whilst there is no legal definition of what a reserve is, the following Charity Commission description helps:

"A reserve is an unspent pool of money for which no particular purpose has been identified for the time being".

This is in addition to monies prudently set aside for known essential future expenditure e.g. for the repair and maintenance of the buildings.

69 What level of reserves do we need?

- It is important to ensure sufficient reserves are available to enable the Church to achieve its aims, but on the other hand, holding too much money in reserve may promote criticism and may well cause searching questions to be asked as to whether the charity is hoarding its cash
- Holding reserves without justification may also amount to a breach of trust. By formulating a reserves policy trustees will be confident that they will be meeting the requirements of charity law
- Trustees are under a general legal duty to apply or spend Church funds within a reasonable time of receiving them
- For most Churches there is probably no need to hold general reserves of more than, say, six months of routine expenditure (unless they have a legal power to do so)
- The Church could be holding reserves that are too high or too low for its needs. If a Church's reserves are too high it is retaining income funds without justification. **Those funds ought to be expended for charitable purposes.** While the funds remain in the trustees' hands the charity's current users or beneficiaries - actual or potential - are not being as well served as they could be
- If a Church has more resources than it could reasonably need to fulfil all of its purposes, the trustees should seek Connexional guidance. Standing Orders permit managing trustees to grant funds to other Methodist purposes. Trustees have a legal duty under the Charities Act 2006 to apply for such a scheme where it is appropriate to amend the purposes or use of the fund.
- **In practice many local Churches will never be faced with the prospect of what to do with reserves when their main concern is to meet the Circuit assessment/contribution**

Income on Circuit Model Trust Funds not drawn at the year end is capitalised by TMCP.

Monies raised for a building or development project and bequests are not classed as reserves for this purpose.

Following changes to Standing Orders in 2009 Circuit Model Trust Funds are now categorised as unrestricted funds and may, in effect, be used for any Methodist purpose. The charity trustees should adopt a policy for the use of the Funds considered with the Circuit mission aims.

70 Reserves policy

To justify the holding of reserves, trustees should have a **reserves policy** based on a realistic assessment of their needs. Many charities believe this process is an essential part of good financial management. Money does little good sitting in a bank account. All reserves should be earning interest wherever possible.

A Church that builds up reserves by retaining, as a matter of habit alone, any annual surpluses it makes, will scarcely be able to justify holding those reserves.

The policy should cover as a minimum:

- the reasons why the charity needs reserves
- what level (or range) of reserves the trustees believe the charity needs
- what steps the charity is going to take to establish or maintain reserves of the agreed level (or range)
- arrangements for monitoring and reviewing the policy

The amount of time spent on preparing such a policy should be in proportion to the scale and complexity of the charity's affairs and for many Churches it will not be necessary at all.

However, where **reserves** are held a clear **policy** is appropriate. It should be **communicated** to Church members and reviewed regularly.

In deciding upon its reserves policy the Church should be guided by:

- likely income in future years, taking into account the reliability of each source of income and the prospects for opening up new sources
- likely expenditure in future years on the basis of planned activity
- any future needs or opportunities not likely to be met out of income
- these factors should take into account the need to cover:
 - usual running costs
 - surplus funds to cover unforeseen expenditure
 - property repairs and maintenance
 - planned developments

Trustees may have difficulty explaining why they hold reserves if they have not considered the above points.

Any charity could find its reserves subject to scrutiny and comment in the public arena but once a charity has taken the trouble to explain its reasons, the great majority of its donors, supporters and beneficiaries will be quite prepared to accept that it should hold appropriate reserves.

An example of a **Reserves Policy** can be found on the Methodist website at www.methodist.org.uk.